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# THE Public Interest

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**Containing Medical Costs: Why Price Controls Won't Work**
*William J. Baumol*

**Teaching Children to Prevent Sexual Abuse** — *Neil Gilbert*

**Illusions of Job Segregation** — *James P. Scanlan*

**What Europe Does for Single-Parent Families** — *Sheila B. Kamerman & Alfred J. Kahn*

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**"Supply-Side" Economics— Theory and Results**
*Paul Craig Roberts*

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# Teaching children to prevent sexual abuse

NEIL GILBERT

CHILD ABUSE is a serious and growing problem. Between 1972 and 1984 the number of suspected child-abuse cases reported to the authorities more than doubled, going from 610,000 to 1.5 million. Furthermore, experts say that many if not most incidents of abuse are never reported. Not to exaggerate the situation, the official figures must be appraised in view of the increasing rate of unsubstantiated reports, which climbed from 35 percent in 1975 to 65 percent in 1984. But no matter how one reads the numbers, approximately 525,000 substantiated cases annually represent a tremendous amount of human suffering.

The alarming surge of child-abuse reports in recent years has awakened the fears of parents. Although raising young children was never exactly a carefree business, new causes for anxiety abound today, as the most lurid incidents of child rape, molestation, and kidnapping are documented by the news media with chilling frequency. Among families with both parents working and young children being cared for outside the home, these fears are often

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*A version of this article will appear in* Protecting Young Children from Sexual Abuse, *by Neil Gilbert, Jill Duerr Berrick, Nicole Le Prohn, and Nina Nyman, which is forthcoming from Lexington Books.*



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mixed with a measure of guilt about leaving their children in the hands of others. Such powerful emotions surely spark parental concern, but they hardly promote sober judgment. And sober judgment is just what is lacking in the recent large-scale efforts to prevent child abuse (especially sexual abuse) through educational programs in nursery schools and kindergartens.

Over the last decade a new industry has developed courses designed to teach sexual-abuse prevention to small children. Books, lesson plans, videos, and an array of educational paraphernalia such as anatomically correct dolls, puppets, and posters have been produced for use in numerous programs supported by public funds. Leading the way, California has implemented the largest and most comprehensive classroom-based program in the country. Under the Child Abuse Prevention Training Act of 1984 (CAPTA) the state grants $10.4 million annually for special instruction covering preschool, kindergarten, elementary, and high school classes. A political juggernaut, CAPTA sailed through the State Assembly by a vote of seventy to two and won unanimous approval in the Senate. This overwhelming support surely reflected a desire to protect young children. But it is hard to imagine what legislators thought might be transmitted in the classroom to three-, four-, and five-year-old children that could help them prevent sexual abuse. If opposition to the bill was lacking, so was a critical assessment of its merits, particularly in regard to preschool children.

While California has the most extensive early-education program, similar efforts are prevalent throughout the nation, under curricula headings like these: "Bubbylonian Encounter" (in Kansas City), "You're In Charge" (in Salt Lake City), "Red Flag, Green Flag People" (in Fargo, North Dakota), and "Talking About Touching" (in Seattle). One of the oldest and most widely used curricula for this type of instruction is the Child Assault Prevention Program (CAPP), developed by Women Against Rape in Columbus, Ohio, in the late 1970s. Based on a philosophy drawn in part from rape-prevention programs for women, CAPP emphasizes the objectives of individual empowerment and self-protection. Underlying this approach is a feminist perspective on "powerlessness" plainly expressed in the text of a CAPP preschool training manual: "Women and children share a similar victim status in that both groups are dependent upon another group of people from whom rapists, or abusers, are drawn." Many of the newer programs have borrowed ideas from the CAPP model.

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A variety of instructional techniques are employed in these early prevention programs. Different models use puppet shows, contests, dress-up and improvisation, videotapes, songs, and stories to deliver their lessons. Some programs encourage parents to attend and participate; others exclude them from the classroom. These programs generally require one to three sessions, of thirty to forty-five minutes each. Classroom instruction is usually furnished by outside service providers, rather than the children's regular teachers.

What are young people being taught by these programs? Despite the variety of instructional techniques, the different programs are remarkably similar. Young children have a brief attention span and a limited ability to grasp complex ideas, so only a few simple messages can be conveyed in the lessons. The basic information that most programs try to get across concerns touching, feeling, telling, fighting back, and dealing with strangers. At first glance, lessons such as "good touch, bad touch," "no, go tell," and "stranger danger" seem to offer the kind of sound advice that might actually help to prevent the sexual abuse of young children. On closer examination, however, the messages these programs transmit are neither as simple nor as sound as they may appear.

## How effective are the programs?

What do these programs teach? How much of it can be understood by preschoolers? Can they put the knowledge to use outside the classroom? Regrettably, such sensible questions have yet to be fully answered. Among the few studies conducted on preschool training, a two-year evaluation of seven programs in California contains the largest sample and the most detailed results. Testing 118 children before and after participation in the courses, the study examined what these three-and-one-half to five-year-old subjects learned about things like how to react to being touched, when not to keep secrets, and how to deal with strangers. The findings revealed that the children had only a rudimentary grasp of the connection between the physical act of being touched and the emotions it might generate; they were also confused by the idea that they should tell someone when they had secrets that made them feel uncomfortable. Finally, they made only limited gains in dealing with strangers, which left about half of the children ill-equipped to face potentially threatening situations. There was some indication, however, that the programs may have heightened children's sensitivity to negative feelings about physical contact. Overall, the study concludes that under the most conservative assumptions, which take no note of the

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possible erosion of learning over time, these programs yield only very limited gains in knowledge.[1]

This general conclusion is corroborated by findings from several smaller studies of prevention programs in preschool and the early grades of elementary school. None of the research on sexual-abuse prevention training of three- to five-year-olds is methodologically flawless, because the subject matter is elusive and the trainees are so young. To understand just how young, consider the classic findings of the developmental theorist Jean Piaget: when water in a flat dish is poured into a tall, narrow cylinder, most four-year-olds believe that the cylinder contains more liquid than the dish from which it came. A change in shape is mistaken for a change in mass. Is the four-year-old who cannot grasp the "conservation of quantity" likely to understand lessons that try to convey the far more subtle change of emotions that are aroused by a soft touch that at first feels good, then becomes confusing, and finally feels bad?

Whatever is learned in prevention training, it is extremely difficult to answer the question of how well that knowledge can be put to work outside of school. Testing children to see how they might employ classroom instructions about "good touch, bad touch," "no, go tell," "yelling for help," and "physical self-defense" would require placing them in threatening or seductive situations; doing so is, of course, beyond the pale of acceptable social experimentation. Situations in which young children get to cope with "stranger danger" are easier and less controversial to simulate (although the deception required for such research remains open to serious criticism). Evidence drawn from several studies that used simulations suggests that instructional programs can increase the degree of stranger avoidance in particular circumstances. It is unclear, however, whether what is learned can be applied to other social contexts in which the stranger's approach is more subtle or threatening than those simulated for research purposes.

Altogether, the empirical evidence on preschool programs is discouraging. Participants registered only a limited increase in learning, and one would hardly expect these small gains notably to reduce the incidence of sexual abuse. If the potential for training preschool children in this area exists, current methods have failed to

[1] Family Welfare Research Group, School of Social Welfare, University of California at Berkeley, *Child Sexual Abuse Prevention: Evaluation of Educational Materials for Preschool Programs*. This study was conducted for the Department of Health and Human Services, National Center on Child Abuse and Neglect. Completed in January 1988, it will be published by Lexington Books as part of *Protecting Young Children From Sexual Abuse*.

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uncover it. The performance of these programs might be improved if training curricula were revised in light of the limited cognitive abilities of preschool children, and if more classroom time were devoted to their presentation. It is not at all clear, however, whether there are any concepts that are comprehensible to small children that can at the same time explain such awful and mysterious adult behavior. Definitiveness and simplicity are required to convey ideas to children this age, but the subject of sexual abuse is necessarily complex. Even if preschool children could learn this material, however, there remains a fundamental—and troubling—normative issue: Are these lessons that young children *should* be learning?

The question of what is learned can be answered with varying degrees of precision by empirical research, but the normative issue cannot be settled so neatly: it deals with the values and behavior that the lessons promote. For example, how are matters of physical intimacy and parent-child relations portrayed? What messages do they communicate about society's expectations for children? To understand the normative implications of prevention programs, one must examine the contents of their curricula in detail.

## Children's rights and parental obligations

A considerable amount of material in the preschool programs is devoted to discussions about physical contact, the feelings aroused by being touched on different parts of the body, and the ways in which young children should react to them.[2] Both assaultive and sexually related behaviors are addressed as forms of touching. Of the two, assaultive behavior is the easier to deal with; even here, though, complications abound.

Hitting, pinching, kicking, and biting are painful to those on the receiving end. It is not difficult to convey the idea that a "bad touch" is one that hurts. In virtually every curriculum the uniform response to a bad touch is "no, go tell." Children are taught to demand that the touch stop, and then to tell their parents, the police, a teacher, or some other adult. The lesson is reinforced by

[2] The material discussed here is based on a content analysis of the following five curricula: Children's Self-Help Project, *Preschool Curriculum* (San Francisco, 1985); *Child Sexual-Abuse Prevention Education Program* (San Luis Obispo, mimeo, n.d.); *Child Assault Prevention Training Center of Northern California Preschool Project Training Manual* (Berkeley, California, 1983); Carol Grimm and Beck Montgomery, *Red Flag, Green Flag People Program Guide* (Fargo, North Dakota: Rape and Abuse Crisis Center, revised ed., 1985); and *Talking About Touching With Preschoolers: A Personal Safety Curriculum* adapted by Margaret Schonfield from the *Talking About Touching* elementary curriculum by Ruth Harms and Donna James (Seattle, Washington: Seattle Institute for Child Advocacy, 1985).

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explaining to children that they own their bodies and that no one has a right to touch them in ways they do not like.

This emphasis on children's rights and feelings affirms the philosophical position that underlies much of the training in prevention programs. This position takes little account of parental rights and responsibilities in family life. One curriculum, for example, begins with a skit in which three-year-old Vivian tells her mother and father that she feels hungry and asks for something to eat. When the parents refuse, it is presented as a violation of Vivian's "right to eat." By no means atypical, this example illustrates the unconditional view of children's rights expressed in many programs.

By contrast, parental rights—indeed, parental obligations at times not to accede to all of a child's requests—are given little recognition in these programs. Parents often exercise discretion about feeding their children; they may refuse a child's request for food because he just had lunch, is having dinner in a little while, is overweight, or is asking for junk food. Do children really have a right to eat whenever they feel hungry? Do they have a right to eat whatever they like? The answers are not quite so simple as these programs seem to suggest. One could say that a child has a right to a balanced nutritious diet, but such a concept is well beyond the grasp of three-year-olds. Obviously, there is a need to simplify ideas for presentation to young children.

In simplifying this material, however, serious issues are treated in an unserious manner, particularly those issues that require balancing the rights of parents and children. A case in point is the way these lessons treat corporal punishment. Does spanking qualify as a bad touch? Is it a violation of children's rights? Should children report this parental behavior to other adults or the authorities?

Among the five curricula analyzed, only one program guide addresses the distinction between a spanking given by parents and "bad touches." In that program teachers are instructed to point out that a bad touch is different from a spanking, and to suggest that children may deserve to be spanked by parents if they do something naughty or dangerous. The instructions go on to draw a line between a simple spanking and a beating that results in bruises, bleeding, or broken bones: if children are hit so hard as to suffer physical injury, they are encouraged to report the incident. Most prevention programs, however, not only fail to distinguish spankings from assaultive behavior; they also quietly but directly advance the view that spanking is a form of child abuse. This is not an uncommon point of view. In Sweden, for example, it is illegal to spank

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children. Although there is no penalty for violating the law, it embodies a symbolic consensus among Swedes on proper child-rearing behavior. Many people in the United States also oppose corporal punishment for children, but public opinion is substantially divided here. Without a clear consensus on the issue, it does not seem right for programs taught in public schools to advance one view while opposing the other.

What children learn in school carries the implicit weight of public authority. Furthermore, the preschool and kindergarten years are highly impressionable ones. In the absence of a consensus about the acceptable limits of parental discipline, the relatively few groups that are designing and operating child-abuse prevention programs throughout the country have come to exercise an undue influence in defining appropriate behavior for parents and children. Although parental consent is required for children to participate in the programs, few parents study their curricula. The low rate of parental participation found in one study of seven programs in California (only about one-third of the parents chose to attend) indicates that the majority of parents know little about the content of these programs or the normative values that they inculcate.

## "Good touch, bad touch"

If opposition to corporal punishment were all that "good touch, bad touch" lessons promoted, those with dissenting views might register a mild objection and leave it at that. To spank or not to spank, after all, is not an issue of great importance to most people. But more serious principles are at stake.

What exactly constitutes a "bad touch"? In most cases children are told that how they feel about a touch makes it good or bad. One curriculum guide asserts that the typical negative or "Red Flag" touches that children receive from parents and grandparents include wet or "yucky" kisses, tight hugs, and spankings. These touches are put into the same "Red Flag" category as incest, genital fondling, and other forms of sexual abuse. At several points the curriculum guide reminds teachers to emphasize "that it is how the person receiving the touch feels that makes it a Red Flag or Green Flag touch." When children feel they have received a "Red Flag" touch they are instructed to tell their parents, a police officer, or their teacher.

In introducing "bad touches" that are sexual, many programs begin by teaching children to identify their private parts. But there is disagreement about exactly what these private parts include.

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The minimalist position defines them as the genitals or the body parts covered by underwear. A more expansive view includes the mouth and chest. And in some programs physical contact on any part of the body that does not "feel good" is a bad touch. One curriculum, for example, explicitly acknowledges that the hair is not a private part, while another uses role-playing in which a four-year-old girl is congratulated for informing her teacher about the next-door neighbor who sometimes invites her into his house for milk and cookies, and then touches her hair. Thus, in the most inclusive view of "bad touch," children are taught that even a pat on the head should be reported to the authorities if it feels funny. From this perspective (all-embracing in every sense), the children's intuition, how they feel about gentle physical contact anywhere, is the essential determinant for separating good and bad touches. Reliance on children's intuition is a dominant feature in preschool curricula for sexual-abuse prevention training. This is true even though in one program (not trusting entirely to children's feelings) the class is told that if "someone touches them very gently on their private parts and it feels nice," nevertheless it is a bad touch. Another program, though, takes the view that "no one should touch you on private parts of your body *if it feels funny or you don't like it*" (emphasis added). In this view, presumably, if it feels nice it's all right.

*Talking About Touching* is among the most popular curricula in the country. The latest version of this program guide includes a simple set of rules for determining safe and unsafe touches to supplement the conventional reliance on children's feelings. The rule is simply that no part of the body covered by a bathing suit (with tops for girls) should ever be touched by another person, except for when the child is being bathed or examined by a doctor. If the rule is broken, children are encouraged to report the touch to parents or teachers. It is no doubt physically possible for mothers and fathers to pick up their four-year-old daughters for a hug or hold them on their laps without touching the child's chest—if the parents' hands are carefully placed under the children's arms and if their fingers do not stray an inch. But if anyone were to take this rule seriously, parents would certainly be induced to stop hugging their children.

In 1986, the Superintendent of the Waukegan School District warned his 700 teachers not to touch their 12,000 students in any way, fearing that a hug or a pat on the back might bring accusations of sexual abuse in the classroom. This advice met with sharp criticism from child-care experts and community leaders. "Touching and hugging," in the words of a PTA leader, "[are] an indication

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that love is present." But children are taught that a hug from a teacher they do not like, one that they feel is too tight or that they are not in the mood for, is not an expression of affection, but a "bad touch." The school superintendent's warning, which at first appears recklessly insensitive, seems merely prudent when placed in the context of "good touch, bad touch" lessons.

Because intimate contacts do not produce the immediate pains of physical abuse, some programs recognize that the feelings engendered by kissing, hugging, and other gentle touching might occasionally be muddled. Hence, the "confusing touch" is introduced. According to a typical definition, confusing touches are those "(1) that start out okay and end up not okay, (2) in which you like the person but not the touch, (3) in which you like the touch but not the person." When they experience the sense of being mixed-up or confused, children are instructed to respond according to this familiar prescription: determine whether the sensation feels good or bad and then decide what to do about it. They are particularly advised to take heed of the "uh-oh feeling." As one program text explains:

> The uh-oh feeling can be a funny feeling inside your tummy or goose-bumps up and down your body. Also, you may hear little voices in your head telling you something is wrong. . . . The uh-oh feeling is very important because it can help you figure out confusing touches.

As the term "uh-oh feeling" suggests, the confusing touch is really not all that confusing. In almost every example offered, it turns out to be a bad touch that is not instantly recognized as such.

When children are unable to avoid a threatening situation—being cornered or grabbed by an assailant—the programs tell them to scream as loudly as possible. One of the most widely used curricula also teaches children to fight back:

> You can kick them. Even if they try to pick you up you can kick them. But you have to remember not to kick them too high or you can fall over. (Dolls demonstrate kick.)
> You can stomp on their foot. (Demonstrate stomp.) And you can bite, scratch, pinch. You can do anything you can to get away.

This lesson exhibits a remarkable deficiency in good judgment, and creates a dangerously false impression of a four-year-old's ability to defend herself against adults. It is hard to imagine that teaching little children to fight increases their safety. While some parents may view self-defense as a desirable lesson of child-abuse prevention training, many, no doubt, would not wish to have their children tutored in these techniques.

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## Lessons that can frighten

If children are expected to cope with the threat of sexual abuse, they must be made aware of its possible sources. Whom should children be on guard against? In the words of one curriculum guide, "there are two kinds of people who touch children on parts of their bodies when they don't like it or it feels funny: strangers (or people you don't know), and people you do know."

"Stranger danger" is one of the themes widely communicated in child-abuse prevention programs. Children are instructed not to speak to strangers, not to take anything from them, not to accompany them anywhere. One rule often cited is to stand at least an arm's distance away when strangers approach. Presumably, this gives children room to run if the stranger tries to grab them. It is the kind of simple rule that children ought to be able to remember and use. However, it is highly unlikely that a four-year-old could outrun a determined adult with only an arm's distance between them. By recommending such a strategy, instructors only impart a false sense of security to their pupils.

When children are taught to keep their distance from strangers, the dangers avoided are greatly exaggerated. In the mid-1980s there was a national crisis over missing children, whose pictures can still be found on some milk containers. At the height of the crisis, estimates suggested that up to 1.5 million children were missing. According to FBI figures, however, only sixty-eight children were abducted by strangers in 1984. Over 95 percent of missing children are runaways; the vast majority of the remaining 5 percent are abducted by one of their parents, as part of a nasty dispute over custody. Nobody knows how many children are sexually abused by strangers. But most estimates indicate that 80-90 percent of reported cases of sexual abuse involve offenders known to the child. The actual rate of abuse by strangers is probably even lower than these estimates suggest, since molestation by strangers is more likely to be reported than cases involving family members. Why, then, do these programs devote so much attention to "stranger danger"? Despite the facts, many parents find this emphasis on strangers reassuring. One would not expect most parents to feel enthusiasm for having their children taught "daddy danger"—that is, to think that they must protect themselves against sexual assault by family members.

But strangers are not the only potential offenders discussed in the training programs. Family members, particularly fathers, stepfathers, and uncles, are more quietly but no less clearly identified as examples of people who may sexually abuse children. There is some

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evidence that communicating the idea of intrafamilial sexual abuse makes a serious impression on children. A study of sixty-three children (ages eight to eleven) who took a course that included information on family members as potential sexual offenders found that there was a significant increase in the extent to which they contemplated the possibility of intrafamilial sexual abuse. Indeed, among twelve measures of change, the largest difference was registered on the question of whether a family member could inflict violent sexual abuse: the proportion of affirmative responses more than doubled, going from 39 to 88 percent.

Three- and four-year-old children are unlikely to imagine that their parents might sexually abuse them. To place this thought in their minds is risky. As one curriculum guide observes: "This point needs to be made in a sensitive way that will not overly concern children about responsible parental figures." The example offered in the guide tells a story of a father who touches his daughter's private parts while tucking her into bed. Exactly how to present this story in a way that is not "overly" disturbing, however, is left to the teacher's imagination.

## Asking too much of children

What are children and their parents to make of these ideas? The programs are right, of course, to say that touching can be good, bad, or confusing—depending upon which parts of the body are being touched, by whom, and under what circumstances. Intuition may be helpful, but even adults have a hard time sorting all this out. How many adults are seduced every day by flowers, false promises, and gentle touches? Perhaps one could argue that children's intuition is more penetrating than that of adults, but the evidence for this is hardly compelling.

Because of the need for simplicity, these curricula can only promote the importance of children's rights and feelings at the expense of those of adults. Hence the programs teach that the "yucky kiss" from Uncle Bill, the tight hug from grandma, or the unwanted squeeze from Aunt Jenny, which may not feel good, are therefore "bad touches." These touches are seen as an infringement on the child's rights that should be automatically resisted, and perhaps even reported. At best, this view disregards the deep affection from which these physical expressions usually arise; at worst, it implies that something insidious lurks behind simple physical contact. Leaning heavily on the intuitive powers of three- to five-year-old

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children, these lessons cultivate self-centeredness, and distort children's perceptions of affectionate adult behavior.

It is true that most seductions of young children start with a touch, a pat on the head or the behind, a kiss, an offer of candy, and the like; but most touching, kissing, patting, and offers of candy do not lead to the seduction of young children. Most are warm, sincere, and nurturing expressions of familial love. But with numerous examples of bad touches and "uh-oh feelings," the lessons do more than transmit a sense of touching as perilous; they try to establish narrow boundaries for children's responses to physical intimacy in family life. It is hard to set criteria governing physical intimacy between parents and children, since this behavior is intensely private and very diverse. The lessons of child-abuse prevention training set normative boundaries that do not reflect the diversity of American family life. Depending upon the curriculum, a parent's affectionate pat on the behind of a four-year-old child may appear as an act that violates the dictum against touching private parts, or as one to be consciously appraised by the child to determine its goodness or badness.

Whether or not one agrees with the views of physical intimacy, children's rights, and self-defense presented in child-abuse prevention training, and whether or not one believes that the cognitive development of preschoolers permits them to make sense of this training, these programs raise a more fundamental question: Should young children even be expected to prevent abuse? Preschool children need care and security. At a time in their lives when it is important for them to feel that their parents will nurture and protect them, should children be taught that they must evaluate the boundaries of appropriate adult behavior? The underlying message in the "empowerment" of four-year-olds is that they must try to control the dangerous outside world. It is an abdication of family and community responsibility—a sorry message for our times.

Real dangers do, of course, exist. A distressing number of children are at risk of physical and emotional injury from adults whose touches are not innocent expressions of affection. To criticize sexual-abuse prevention training for preschoolers is not to deny the serious problems these programs hope to alleviate. However, "empowering" four-year-olds, whom we normally forbid to cross the street alone, defies common sense. At best, it is a social placebo that may only bewilder small children while soothing parental anxieties; at worst, it leaves youngsters as vulnerable as ever but psychologically on edge—a little more aware of the dangers around them and a lit-

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tle less able to enjoy the innocence of childhood. The resources consumed by training preschool children might be used more constructively in programs designed to sharpen the vigilance of parents, teachers, and other responsible caretakers of children. This approach would place the duty to protect children closer to family and community, where it belongs.

## Epilogue

In the spring of 1988, the California Office of Child Abuse Prevention (OCAP) placed a moratorium on the training of preschool children, prescribing instead that the money be spent training teachers and parents of small children to detect signs of child abuse. OCAP officials had found too many unresolved issues in preschool training, and could no longer publicly sanction what amounted to experimentation with three- to five-year-olds. This change was fiercely opposed by a group of well-organized, politically active service providers. To them, it was not a call for more effective prevention services, but a threat to the ideological foundations of their programs, not to mention their livelihoods. Led by Child Assault Prevention Program staff, this group enlisted Assemblywoman Maxine Waters, the influential legislative sponsor of California's Child Abuse Prevention Training Act, to press OCAP to rescind the moratorium. Their efforts prevailed and in the summer of 1988 OCAP reinstated preschool training—a triumph of politics over reason that ignores the interests of children.

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# "Supply-side" economics—theory and results

PAUL CRAIG ROBERTS

WHEN JOHN F. KENNEDY was elected President of the United States in 1960, Keynesian economic policy entered its American heyday. Keynesianism had been entrenched in the universities for over a decade, and a generation of journalists and civil servants had been instructed in its principles. There were few critics, and no one paid them any attention. For twenty years it had free rein; the implementation of Keynesian theory, however, culminated in "stagflation."

When Ronald Reagan was first elected President, few people had ever heard of what we now call "supply-side" economics. It was a policy born not in academia, but in the congressional budget process, amid frustrations with stagflation and worsening trade-offs, incomprehensible to Keynesian theory, between inflation and unemployment. In the autumn of 1978 the Democratic-controlled Congress approved a measure that was the first example of what is now known as "Reaganomics"—tax-rate reductions combined with reductions in the growth of federal spending—but the legislation was killed in conference between the House and Senate as a result of President Carter's announcement that he would veto it. Nevertheless, Congress rejected the Carter administration's own tax-

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reform legislation, which was designed to close loopholes without lowering tax rates; this same Congress did cut the capital-gains tax rate. Thus was supply-side economic policy born.

In its 1979 Annual Report, and again in 1980, the Joint Economic Committee of Congress called for the implementation of supply-side fiscal policy. And during the 1980 presidential campaign, the Senate Finance Committee approved a cut in marginal tax rates, and reported it to the Senate. Many Democrats obviously favored the new approach to economic policy. However, they feared to pass the tax cut prior to the presidential election, because doing so would have appeared to endorse Republican Ronald Reagan's policies, rather than those of their own party's candidate. So the Senate leadership decided to wait until after the November election to pass the tax cut. Unexpectedly, Reagan's victory cost the Democrats control of the Senate, and the tax-cut issue was delivered firmly into Republican hands.

The Reagan White House was staffed with people who were quite unfamiliar with the change in economic thinking that Congress had undergone in the previous four years. Gratuitously uninformed and arrogant, the White House staff maneuvered to deny congressional Democrats any credit for the forthcomig 1981 tax-rate reduction. When House Democrats saw that they were being denied participation in this legislation (so that Reagan's staff could present him with a political "victory"), they devised their own tax cut, which was similar in substance to the Administration's. Indeed, the two bills did not differ politically until Reagan added the indexation of the personal income tax (beginning in 1985) to his measure.

While political neophytes in the White House were risking the implementation of the new policy by denying the Democrats any stake in its enactment, financial conservatives, who wanted a quick victory over inflation at any cost, were encouraging the Federal Reserve Board to conduct a disastrous monetary policy. Egged on by these conservatives, the New York bond houses, and its own fears, the Federal Reserve tightened the money supply sharply and sent interest rates soaring. This misguided policy sent the economy into a tailspin, resulting in the worst recession in the postwar era.

These two errors left President Reagan in a difficult position. He had picked a fight with the Democrats on tax cuts (even though they were willing to support them), and then claimed victory over them—just as the economy entered a deep recession. The Democrats and their allies in the media were quick to take revenge, and the recession's budget deficits were blamed on Reagan's tax cuts

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even *before* the rate reductions began to be phased in. By January 1982, large deficits were being attributed to the tax cuts, although the first significant cut in taxes took effect only in July 1982, and the second cut in July 1983.

Outside Congress few people understood the nature of the new policy, so both its opponents and proponents felt free to caricature it. Today the policy is still widely misunderstood as the simple belief that tax cuts "pay for themselves" in increased revenues. (This belief has made it all the easier for the budget deficits to be blamed on the 1981 tax-rate reduction.) Because of this lack of understanding, it is not surprising that most economists and economic commentators failed to anticipate some of the striking results of "Reaganomics." The extraordinary increase in wealth that resulted from the sharp rise in stock and bond prices was not generally predicted. Most financial-market gurus forecast that fear of the inflation resulting from the implementation of the tax cuts would keep the financial markets in the doldrums. Indeed, in 1981 economists of all political persuasions interpreted supply-side economics as an inflationary policy. Thus, the Federal Reserve was advised by its consultants that monetary policy was the junior partner, a "weak sister" that would be overwhelmed by an expansionist fiscal policy—costly advice for which we are still paying.

Incredibly, most of these misunderstandings persist.

## The theory of supply-side economics

Whereas Keynesianism focused on the supposed relations between macroeconomic aggregates, and emphasized the importance of consumer demand in quickening or slowing economic growth, supply-side economics focuses on individual incentives to work, invest, and save. It does not claim, contrary to a common opinion, that every individual has a powerful propensity to work, invest, or save—only that such a propensity is strong enough (however varying in degree) in enough individuals to have a major economic effect. One might say that supply-side economics, unlike Keynesianism, relies more on the microeconomic analysis of market behavior and less on the macroeconomic analysis of statistical aggregates.

This change represents a fundamental shift in thinking about fiscal policy. In the Keynesian approach, the effect of a fiscal change —whether in taxes or government spending—is to alter demand in the economy. A tax-rate reduction, for example, raises the disposable income of consumers, who then spend more. Assuming government spending to be held constant, the increased consumer spend-

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ing stimulates supply and moves the economy to higher levels of employment and GNP. In this view, if the government runs a deficit, the deficit's size determines the amount of stimulus.

In contrast, supply-side economics emphasizes that fiscal policy works the way markets work: by changing relative prices and thereby changing individual incentives. High tax rates are seen as disincentives to produce *regardless* of the overall level of demand. To understand the difference in emphasis, consider the removal of a tariff that is so high that it actually prevents trade in a commodity. When the tariff is lifted, no revenues are lost—there have been none—no budget deficits result, and no money is put into anyone's hands. Yet clearly economic activity will expand, because a disincentive has been removed. Nothing in Keynesian "demand management" captures this effect.

Supply-side economics brought a new perspective to fiscal policy by focusing on the *after-tax* rewards for saving, investing, working, and risk-taking. As people increase these activities, leisure, consumption, tax shelters, and working for nontaxable income become less important to them. This leads to an increase in the market supply of goods and services—hence the name "supply-side" economics. As people respond to the higher after-tax rewards or greater profitability of work, incomes rise and the tax base grows, which feeds back *some* of the lost revenues to the Treasury. The savings rate also grows, providing more financing for government and private borrowing.

Looked at in terms of relative prices, the supply-side argument is straightforward. There are two important relative prices on the economy's supply side. One governs people's decisions about how to divide income between consumption and saving. The cost to the individual of allocating a unit of income to current consumption is the future income stream given up by not saving and investing that unit of income. The value of that income stream is obviously influenced by marginal tax rates. The higher the tax rate, the less the value of the income stream. High tax rates make consumption cheap in terms of forgone income; hence the savings rate declines, resulting in less investment.

The 98 percent marginal tax rate on high incomes that applied in Great Britain, until it was repealed by the Thatcher government, provides a good illustration. A person in that high bracket could either spend $100,000 on a Rolls Royce or invest it at (speaking optimistically) 17 percent. On a pre-tax basis, the cost of the Rolls Royce would mean forgoing an income stream of $17,000 per year—a rela-

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tively high price for a car. After tax, however, the value of that additional income stream was only $340 per year (the 2 percent of $17,000 remaining after taxes), which in fact is all the purchaser had to give up in order to buy a Rolls Royce—a very low price indeed!

The other important relative price governs people's decisions about how they allocate their time between work and leisure, or between leisure and improving their human capital by upgrading their skills. The cost to a person of allocating another unit of time to leisure is the current income given up by not working (for example, forgoing overtime on Saturday) or the future income given up by not spending time to improve his skills. The value of the forgone income is determined by the rate at which additional income is taxed. The higher the marginal tax rates, the cheaper the price of leisure—which means that absenteeism goes up, willingness to accept overtime declines, and people make less of an effort to improve their work skills.

In the U.S. it is often said that a person works the first five months of the year for the government, and then starts working for himself. But that is not the way a *progressive* tax system operates. The first part of the year, the person works for himself; he begins working for the government whenever his income reaches taxable levels. The more he earns, the more time he spends working for the government, until rising marginal rates discourage him from further work altogether. This is abstract, to be sure—not all human beings react in the same way. But if most individuals, most of the time, don't react this way, there can be no such thing as economics, Keynesian, supply-side, or otherwise.

Physicians who encountered a 50-percent tax rate after six months of work were faced with working another six months for only 50 percent of their actual earnings. Such a low reward for effort encouraged doctors to share practices in order to reduce their working hours and enjoy longer vacations. The high tax rates reduced the tax base by discouraging these productive people from earning additional amounts of taxable income. And the high tax rates also drove up the cost of medical care, by reducing the supply of medical services.

The effect of tax rates on the decision to earn additional taxable income is not limited to physicians in the top bracket. Studies by Martin Feldstein at the National Bureau of Economic Research found that in many cases the tax rates on the average worker left almost no gap between take-home pay and unemployment compensation. Feldstein found that a 30-percent marginal tax rate made

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unemployment sufficiently competitive with work to raise the unemployment rate by 1.25 percent and to shrink the tax base by the lost production of one million workers. Blue-collar professionals also encounter disincentives even at "moderate" tax rates. Take the case of a carpenter facing a 25-percent marginal tax rate. Of the $100 he earns each day, he is allowed to keep $75. Suppose his house needs painting and he can hire a painter for $80 a day. Since the carpenter's take-home pay is only $75, he would save $5 by painting his own house. In this case the tax base shrinks by $180—$100 that the carpenter chooses not to earn and $80 that he does not pay the painter. Studies by University of Chicago economist Gary Becker have made it clear that capital and labor are frequently employed by households to produce goods and services through such nonmarket activities.

## Keynesian criticism

Keynesians have objected to the supply-side emphasis on relative price effects in fiscal policy. They have argued that decisions to work or save were either not affected by tax rates or were affected positively—i.e., that people would continue working or saving to compensate for the money lost to high taxes. They have questioned whether incentives would be effective in time to deal with an immediate economic stabilization problem—i.e., a recession or inflation. Neither objection has withstood analysis.

The long run consists of a series of short runs. If policies that are effective over a longer period are neglected because they do not have an immediate impact, and if policies that are damaging over the longer period are adopted because they initially have beneficial results, then policymakers will inevitably reach the stage when they have *no* solution for the crisis they have provoked. In the U.S., this happened in the mid-1970s with the appearance of "stagflation."

In arguing against the effectiveness of incentives, Keynesians were defeated because their claim that people might respond to tax cuts by working less (i.e., "buying leisure") undercut their own interpretation of fiscal policy, which was that people would spend their increased income, produced by an increase in government expenditure, on marketable goods. Obviously, if there were only increased leisure, not increased income, there could be no increase in spending! Keynesianism, as much as supply-side economics, assumes positive elasticities of response.

Today many economists claim that their analyses always incorporated supply-side effects, and that they opposed only the alleged

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claim that the 1981 tax-rate reduction would pay for itself. But in fact, a decade ago those same economists *were* arguing that people respond to incentives in perverse ways. They insisted that people have a targeted level of income regardless of the cost of acquiring it, and that a tax cut would allow them to reach their goal with less work. Lester Thurow actually employed this reasoning to argue for a wealth tax. According to Thurow, a wealth tax is a costless way to raise revenue, because the more wealth is taxed, the harder people work to reach their target—which causes revenues to pour into the government's coffers. Here we have a sort of reverse Laffer curve, which might be called the "Thurow curve." It is a good example of the kind of confused thinking that led to the neglect of the relative price effects of fiscal policy in post-war economic management.

Economists were slow to see the flaw in the argument against incentives. Take something simple, like their assertion that a fixed workweek would preclude adjustment of the labor supply to tax-rate changes. This sounded reasonable enough to many who did not realize that the "adjustments" were also reflected in absenteeism rates, turnover rates, and the average duration of unemployment.

## Empirical studies

A number of economists have assessed the responsiveness of saving, working, and taxpaying to changes in tax rates. The following is a brief summary of evidence reporting positive elasticities.

The 1964 Kennedy tax reductions were intended to increase aggregate demand by stimulating consumption, leading to additional employment and output. Popular economics textbooks have reinforced the view that the tax cuts dutifully increased demand and propelled a recovery. However, studies by Paul Evans and U.S. Treasury staff economists have found that, in reality, the recovery occurred despite a *fall* in the propensity to consume. The data clearly show that, after the marginal tax-rate reduction went into effect, people spent a *smaller* percentage of their income. In 1964 consumer spending dipped below the rate predicted by a Keynesian "consumption function," and by 1967 it was at least $17.5 billion below the level forecast by experts—a sum larger than the size of the personal tax cut (measured in constant dollars).

People were consuming a smaller percentage of their income and saving a larger percentage. Following the tax reduction both the real volume and the rate of personal savings increased significantly, reversing the decline that had begun in the early 1960s. The personal

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savings rate remained high for nearly a decade until demographic trends and rising marginal tax rates pushed it down.

The savings increase released real resources from consumption and led to a rapid growth in business investment. In real terms, capital spending (for both the expansion of the capital stock and the replacement of worn-out stock) had grown at an annual rate of 3.1 percent during the 1950s and early 1960s, through 1962. In the rest of the 1960s real capital spending rose more than twice as fast, increasing 6.8 percent annually. While growth was high in the corporate sector, small-business investment increased the most.

The acceleration in investment greatly enhanced the economy's productivity. The net stock of capital had grown 3.5 percent annually between 1949 and 1963, but with the tax cuts it rose to a 5 percent growth rate for the remainder of the decade. Keynesian economists claim that the investment boom resulted from the investment tax credit, but the sharp rise in investment could not have taken place if consumers had not released resources from consumption by saving a larger share of their incomes.

Allen Sinai, Andrew Lin, and Russell Robins—not supply-siders—examined the 1981 tax-rate reduction. They found that private savings were indeed influenced by the after-tax rate of return, and that the economy would have performed much more poorly in 1981-82 had it not been for the 1981 tax-rate reduction. Using an augmented Data Resources model of the U.S. economy, incorporating previously neglected effects of after-tax interest rates on saving, investment, and consumption, Sinai and his associates estimated that the net tax reductions introduced by the Reagan administration raised business savings by $27 billion during 1981-82, and that personal savings rose $48 billion above the baseline trend in 1982. Sinai and his associates concluded that in the absence of the tax cut, "the U.S. economy would have performed considerably worse in 1981 and 1982 than actually was the case," with an additional loss in real GNP of about 1.6 percentage points. "The evidence indicates that ERTA (the Economic Recovery Tax Act of 1981) has had a major impact on U.S. economic growth."

## Studies of revenues

Lawrence Lindsey of Harvard University has examined the revenue effects of capital-gains taxation. Because capital gains are taxed only when an asset is sold, inclusion of gains in taxable income is largely discretionary from the point of view of the taxpayer. Consequently, tax-rate sensitivity is greater for capital-gains income

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than for other types of income. Lindsey studied the evidence in tax returns from 1965-82. He concludes that capital-gains tax revenues are maximized at 20 percent or lower, "with a central estimate of 16 percent."

Lindsey has also researched the revenue effects of lowering the top income-tax rate from 70 to 50 percent. He found that taxpayers earning over $200,000 per year paid $18.3 billion *more* in taxes under the new tax code than they would have been expected to pay under the old rates. He continues: "The evidence also indicates that upper-middle-income groups may have increased their labor supply dramatically as a result of the tax rate reductions, particularly the labor supply of the secondary earner in the family." Lindsey estimates that "by 1985 the 1981 tax cuts had boosted real economic activity (GNP) by about 2 percent above what it would have been otherwise." He further states that "the equivalent of 2.5 million more people are working today as a result of the supply-side effects of the tax cuts." He concludes that "the evidence from a wide range of studies shows that taxpayers are highly sensitive to tax rates in many of their economic activities."

James Gwartney and Richard Stroup have examined the changes in the distribution of the tax burden following the tax cuts instituted by Treasury Secretary Andrew Mellon in the 1920s and by John F. Kennedy in the 1960s. In the case of the Mellon tax cuts, tax rates that reached 73 percent in 1921 were reduced to a top rate of 25 percent by 1926. The effect on the relative distribution of the tax burden was impressive. By 1926 personal income-tax revenues from returns reporting incomes of $10,000 or less dropped to 4.6 percent of total collections, compared to 22.5 percent in 1921. In contrast, the percentage of total income-tax revenues from returns by people with incomes of $100,000 or more rose to 50.9 percent in 1926, from 28.1 percent in 1921. The evidence leads the researchers to conclude that "as a result of the strong response of high-income taxpayers, the tax cuts of the 1920s actually shifted the tax burden to the higher income brackets even though the rate reductions were greatest in this area."

Their analysis of the Kennedy tax-rate reductions (which reduced the top rate from 91 to 70 percent) yields similar results. And in testimony before the Joint Economic Committee of Congress in 1984, Gwartney noted that the Economic Recovery Tax Act of 1981 (ERTA) performed similarly well. The reduction of the top marginal tax rate from 70 to 50 percent cut the tax rates applied to high-income earners by as much as 28.6 percent, but tax revenues collected from the rich increased. Revenues from the top 1.36 percent of taxpayers,

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the group that benefited most from the rate reductions, rose from $58 billion in 1981 to $60.5 billion in 1982. The proportion of the total income tax collected from the top 1.36 percent of taxpayers rose from 20.4 percent in 1981 to 21.8 percent in 1982. The tax liability of low-income taxpayers fell both in absolute terms and as a percentage of the total. Taxes paid by the bottom 50 percent of income earners fell from $21.7 billion in 1981 to $19.5 billion in 1982, and their share shrank from 7.6 percent in 1981 to 7 percent in 1982.

Massachusetts Institute of Technology economist Jerry Hausman has devoted much time and energy to studying the effect of taxes on work decisions. In a Brookings Institution study, Hausman reports the following:

> Although income and payroll taxes account for 75 percent of federal revenues, most economists have concluded that they cause little reduction in the supply of labor and do little harm to economic efficiency. The results of this study contradict that comforting view. Direct taxes on income and earnings significantly reduce labor supply and economic efficiency. Moreover, the replacement of the present tax structure by a rate structure that proportionally taxes income above an exempt amount would eliminate nearly all of the distortion of labor supply and more than half of the economic waste caused by tax-induced distortions.

Measuring the effects on labor supply of the tax system and of a 10 and 30 percent reduction in marginal income-tax rates, Hausman also reports that a person earning a nominal wage of $3.15 an hour worked 4.5 percent less than he would have in the absence of taxes. He would choose to work 0.4 and 1.3 percent more after 10- and 30-percent tax-rate reductions, respectively. As income increases, the responses get larger. Taxes cause a person earning $10 an hour to reduce the number of hours worked by 12.8 percent. Ten- and 30-percent reductions would induce him to increase his work time by 1.47 and 4.6 percent, respectively.

## The Reagan economy

In August 1980, during the U.S. presidential campaign, the consensus view of reputable forecasters was that tax revenues in succeeding years would grow much faster than government expenditures, resulting in rapidly growing budget *surpluses* within three years. The Congressional Budget Office at the time forecast a surplus of $37 billion in 1983, rising to $96 billion in 1984 and $175 billion in 1985. Reagan's campaign advisers decided to take advantage of these surpluses and link his candidacy to the emerging supply-side movement that had reshaped congressional policy thinking. These surpluses were calculated to allow for normal growth in govern-

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ment spending and a 40-percent increase in the annual defense budget by 1985. The Republicans promised that instead of creating new government spending programs, they would return the money to the taxpayers by cutting tax rates.

In August 1981, President Reagan signed into law an across-the-board 25-percent cut in personal income-tax rates to be phased in over three years, with a provision to index the personal income tax in 1985 so as to prevent inflation from pushing taxpayers into higher tax brackets. In 1986, the President signed a tax-reform bill further reducing personal income-tax rates with a top statutory rate of 28 percent (33 percent for some upper-income ranges), down from 50 percent in the 1981 bill.

The 1981 bill also substantially reduced the taxation of business income. Tax rates were cut, and accelerated depreciation expanded business savings. In 1982, however, the Administration, panicked by the unexpected recession and the large budget deficit, agreed to a tax increase that limited the benefits of accelerated depreciation and the investment tax credit. Despite the 1982 tax increase, depreciation was more rapid and business income was less heavily taxed than it was before the 1981 tax cut. In 1986 tax rates on business income were further reduced. However, the investment tax credit was repealed, and depreciation periods were lengthened. The overall impact of the 1986 bill remains to be seen.

Despite predictions of rampant inflation by critics, the Reagan economy was more successful than anyone thought possible. The Reagan expansion has not experienced the worsening tradeoff (predicted by the conventional Keynesian "Phillips curve") between employment growth and inflation that led to President Carter's discovery of "malaise." Despite the longest peacetime expansion on record and 17 million new jobs, there has been no rise in the inflation rate. In the 58-month period from March 1975 through January 1980 (the beginning and end of the expansion that followed the 1974 recession), the unemployment rate fell 27 percent, the consumer price index (CPI) rose 48 percent, and gross private domestic investment rose 50 percent (in 1982 dollars). In contrast, during the first 58-month period of the Reagan expansion (November 1982 through September 1987) the unemployment rate fell 45 percent (about twice as much), the Consumer Price Index rose 17 percent (only one-third as much), and gross private domestic investment grew 77 percent (about 50 percent more).

The Reagan economy is remarkable in many other ways. It has produced the highest manufacturing productivity growth in the

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postwar period, averaging 4.6 percent annually since the recovery began in 1982, compared with 2.3 percent in the 1970s, 2.7 percent in the 1960s, and 2 percent in the 1950s. Since the recovery began, per capita real disposable personal income has grown 2.6 percent annually, compared with 1.8 percent in the 1970s, 3 percent in the 1960s, and 1.5 percent in the 1950s.

Moreover, the evidence shows that the tax burden has shifted upward in the Reagan years. The latest Treasury Department data show that between 1981 and 1986 the share of federal income taxes paid by the richest 1 percent rose from 18.1 to 26.1 percent—a 44 percent increase—while the share of taxes paid by the bottom 50 percent fell from 7.5 to 6.4 percent.

## The twin deficits

Despite these successes, supply-side economics has been given a bad name as a result of the budget and trade deficits. Critics of supply-side have blamed the deficits and the crisis of the day (the strong dollar, the weak dollar, the October 1987 stock-market crash, the trade deficit, debtor-nation status, etc.) on the 1981 tax-rate reduction. Inevitably, they advocate an increase in taxes as a response.

The Administration's embarrassment over the deficits was compounded by its hesitancy in explaining them. This failure allowed the President's critics to control the explanation of his policy for most of his tenure in the White House.

An objective account of the "twin deficits" cannot focus on fiscal policy alone. It must also include the role of monetary policy. In early 1981, the Reagan administration asked the Federal Reserve gradually to reduce the growth rate of the money supply by 50 percent over four to six years. This, it was anticipated, would gradually bring down inflation while avoiding a recession. Instead, fearing that tax cuts would cause future inflation, the Fed collapsed the growth of the money supply, and delivered 75 percent of the multi-year reduction in 1981. By 1982, inflation was at the low rate the Administration had predicted for 1986. The result was the most severe recession in the postwar era and a totally unexpected collapse in the growth of nominal GNP. During 1981-86 nominal GNP was $2.5 trillion less than forecast. The loss of revenues from this collapse of the tax base had not been anticipated; government expenditures were already set in the budget. The result was large budget deficits.

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In February 1988, the *Budget of the U.S. Government for Fiscal Year 1989* finally acknowledged that the large budget deficits that have plagued Reagan originated in the "1981-82 economic downturn and the concomitant decline in the inflation rate." In early 1982, however, the Administration, happy over the sudden collapse of inflation, decided to take credit for it, despite the fact that its economic and budget plans had predicted no such result. This effort to claim credit prevented the Administration from holding the Federal Reserve responsible for wrecking the budget, and left the White House with enormous deficits hanging around President Reagan's neck. The Administration never recovered from this public-relations fiasco.

In October 1987, a Treasury Department study, "Accounting for the Deficit," belatedly documented that "the business cycle and compounding high interest rates—not changes in tax structure or programmatic spending—are the major causes of the major 1982-83 jump in the federal deficit." The Treasury study breaks the deficit down into its three components: structural, cyclical, and net interest, which is the amount paid out in interest, less what the government gets back in taxes on the interest payments. The structural deficit, the estimated gap between expenditures and receipts at full employment, is the smallest component. In contrast, the cyclical and net-interest components of the deficit are large. Beginning in 1980 the Federal Reserve's high-interest-rate policy and the large cyclical deficits from the recession greatly increased the net-interest component. By 1987, net interest accounted for *two-thirds* of the federal deficit.

Critics have charged that these high interest rates were caused by the budget deficits. The truth is that high interest rates *preceded* the large deficits. An inverted yield curve, with short-term rates higher than long-term rates, characterized the economy in 1979, 1980, and 1981. The inverted yield curve is an unmistakable sign that high interest rates are caused by stringent monetary policy. The federal-funds rate, an overnight rate set by the Fed, was actually higher than the interest rate on long-term triple-A corporate bonds from October 1978 to May 1980, from October 1980 to October 1981, and from March 1982 to June 1982.

## Blaming the tax cuts for the deficits

The President and some of his defenders have attributed the budget deficit and debt buildup to Congress's refusal to abide by its

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own budget rules. Few have been convinced. Although Congress has set aside the Budget Control Act of 1974 and ignored Administration budgets, congressional overspending does not account for the size of the cumulative deficit.

Early in 1982 the White House decided to put the tax cuts at risk in order to protect the Federal Reserve's unexpectedly tough anti-inflation policy. It was an election year, and officials feared that pressure from Congress would force the Fed to reinflate, thus ratcheting inflation higher and confirming opponents' charges of "inflationary tax cuts." As an internal Office of Management and Budget document put it, "the recession must not be blamed on the Fed." By adopting this tactic, the White House ensured that its fiscal policy would be blamed for the deficit.

This tactic did not serve public policy well. It turned the deficit into a political football and preempted a sensible rebasing of the budget to take into account the lower-than-expected growth path of nominal GNP. Whatever the merits of shielding the Fed, doing so caused the tax cuts to be blamed for the deficit. The argument blaming the Administration had three different formulations:

1) *The Administration made a "Laffer curve" forecast that the tax cuts would pay for themselves.*

In fact, on February 18, 1981, the Administration presented its policy proposals in an official publication entitled "America's New Beginning: A Program for Economic Recovery." The publication contains a table showing the Treasury's forecast that its tax-cut proposals would *lose* $718.2 billion in tax revenues during the 1981-86 period. The budget actually was based on a traditional static-revenue estimate that the tax cuts would lose revenues dollar for dollar. So the loss of revenue from the tax cuts, as distinct from the loss of revenue from other causes, was fully anticipated in the budget. There was no "Laffer curve" forecast.

2) *The Administration made a "rosy" forecast that assumed tax cuts would provide unrealistic economic growth.*

In fact, the Administration forecast *less* robust rates of economic growth than the economy had attained during the 1976-80 period of "stagflation." Moreover, the Reagan administration's economic-growth projection was substantially lower than the projections of both previous administrations. The Reagan forecast originally was labeled "rosy" because it combined economic growth with falling inflation—an impossible combination, according to the Phillips-curve theorizing of the time. Yet it is precisely this "rosy" aspect of the forecast that has proved true.

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The forecast failed to predict the deficit not because of its optimism about economic growth, but because of its pessimism about inflation. The Administration was influenced by the "core inflation" concept, which maintained that inflation was deeply ingrained and could recede only gradually. Consequently, when the Fed brought inflation down rapidly, far below the Administration's forecast, the budget plan collapsed. The spending "cuts" in nominal dollars that were achieved in 1981 were converted into increases in real outlays, and revenues projected on a more gradual reduction in inflation failed to materialize.

3) *The Administration cut taxes deliberately to create large deficits that it hid from view with a rigged forecast, in order to create political pressure to reduce government spending.*

The notion that the professional staffs of the Treasury, the Council of Economic Advisers, and the Office of Management and Budget could be organized in a conspiracy to rig a phony forecast in the most leak-prone administration in history is too farfetched to be taken seriously. Moreover, it is demonstrably false. The deficit forecast failed because it overestimated the nominal growth path of GNP. If the "core inflation" theory had proved to be true, and if inflation had declined more slowly in keeping with the forecast, the large deficits would not have materialized.

To see why this is so without having to work through the mathematics of the budget, assume that the Administration had made a Laffer-curve forecast and greatly overestimated the revenue reflows from the tax cut. In this event, one would expect that revenue collections *as a percentage of GNP* would have fallen dramatically below projections. This did not happen. Revenues collapsed because GNP collapsed.

The Reagan deficits are associated with a sharp increase in government spending as a percentage of GNP. Tax cuts can cause revenues to fall, but they cannot cause federal spending to rise as a share of GNP. Only spending increases and cyclical factors can cause the government's budget to grow faster than the economy.

The Reagan administration's reluctance to criticize the Federal Reserve resulted from a genuine sense of relief that inflation had declined so suddenly. Yet this decline had enormous economic, political, and social costs that are still being felt. The farm crisis is one example of the enormous costs of unanticipated disinflation. Lower crop prices, high mortgage rates, and lower inflation led to a 46 percent decline in the value of farm land since 1979. Direct government payments to farmers soared from $1.3 billion in 1980 to

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$17 billion in 1987. During Reagan's first term, farm-income and price supports were the most rapidly growing components of the federal budget. The ripple effects of the farm, energy, and real-estate crises continue to threaten the stability of the Federal Deposit Insurance Corporation and the Federal Savings and Loan Insurance Corporation.

### The deficits and the international economy

On the international scene, the 1981 tax reduction, even after subsequent tax increases, improved the climate for investing in the United States. But additional credit was needed to facilitate this new investment. The Federal Reserve refused to accommodate the increased demand for dollars, and allowed the dollar to appreciate sharply. That action helped create the trade deficit. The stringent monetary policy curtailed U.S. bank lending abroad by making it clear that the forecasts of rising prices for commodities such as oil and copper, which had been the basis for the loans, would not materialize. Lacking this source of new funds, debtor nations have been unable to service their debts, placing another strain on the world financial system.

Critics of the Reagan economic program point to the twin deficits and to a decline in the personal savings rate as evidence that the tax-rate reductions, far from being a supply-side policy, launched a Keynesian consumption boom that has left America awash in debt at the expense of future living standards.

One strand of the argument is that America depends on foreign capital to finance the budget deficit. But the statistics permit a different explanation: instead of exporting our capital, we are financing our own deficit, while foreign capital inflows finance the investments that foreigners make in the U.S.

Between 1982 and 1983, when the net identified capital inflow shifted from negative to positive, foreign capital inflows into the U.S. actually fell by $9 billion. The change in the capital account resulted from a $71 billion fall in U.S. capital outflows. And during the 1982-84 period—when the story of massive amounts of foreign money pouring into the U.S. from abroad was firmly fixed in the world's consciousness—there was no significant change in inflows of foreign capital into the U.S. What happened is that capital outflows collapsed from $121 billion to $22 billion, a decline of 80 percent. This collapse in U.S. capital outflows is clearly the origin of the large trade deficit. Only in 1986—the year of the falling dollar and low U.S. interest rates—was there a dramatic jump in foreign capi-

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tal inflows. The falling dollar and interest rates may have disturbed foreign investors in U.S. financial assets, but real investment in the U.S. was very attractive to foreigners.

What caused the collapse in U.S. capital outflows? The business tax cut in 1981 and the reductions in personal income-tax rates in mid-1982 and mid-1983, together with less attractive investment opportunities in foreign countries, especially in the Third World, raised the after-tax rate of return on real investment in the U.S. relative to that available in the rest of the world. Therefore, instead of going abroad, the money stayed home.

Chief among the myths about "Reaganomics" is the belief that the U.S. budget deficit is absorbing the investment resources of the globe. European leaders, quick to make the most of any scapegoat offered by Americans, seized on the deficit as the explanation for the lack of investment and employment in their own economies. This guaranteed that the U.S. "deficit imbalance" would be a concern of successive economic summits, endowing the "imbalance" with a long media life. All the while the Organization for Economic Cooperation and Development (OECD) was publishing data showing the U.S. budget deficit to be *less* than the average for the OECD as a percentage of GNP, and one of the smallest in the world!

The OECD publishes data on "internationally comparable general government budget balances." This definition encompasses central, regional, and local government balances, as well as social-security financial balances; according to OECD, it represents the "most widely accepted basis of measurement . . . for international comparisons." Recent data are included in Table I. If there has been a deficit crisis unique to the Reagan administration, it is not reflected in the data.

Bank for International Settlement (BIS) data in Table II reveal other interesting comparisons. The U.S. has one of the lowest ratios of federal debt to GNP in the developed world. Moreover, during 1973-86, a period in which the U.S. experienced the largest deficits in its history, only the U.K. and Switzerland experienced a lower growth in the ratio of debt to GNP. In the U.S. the ratio rose 40.8 percent, but in West Germany and Japan, countries that are often represented as hallmarks of fiscal responsibility, the ratio rose 121 percent and 194 percent, respectively.

The hysteria over the U.S. budget deficit served to produce an unbroken string of erroneous financial forecasts from 1981 to the present. It was alleged that the U.S. budget deficit would cause higher inflation. When inflation collapsed, it was alleged that the

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**Table I. General Government Budget Deficits and Surpluses[a] as Percentages of Nominal GNP/GDP[b]**

| *Year* | *USA* | *Canada* | *UK* | *West Germany* | *Holland* | *Italy* | *France* | *Spain* | *Japan* | *Sweden* | *Australia* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1970-86 average | 1.7 | 2.6 | 2.8 | 2.0 | 3.3 | 9.4 | 1.1 | 2.2 | 2.1 | 0.1 | 0.8 |
| 1983 | 3.8 | 6.9 | 3.6 | 2.5 | 6.4 | 10.7 | 3.2 | 4.8 | 3.7 | 5.0 | 4.0 |
| 1984 | 2.8 | 6.6 | 3.9 | 1.9 | 6.2 | 11.5 | 2.7 | 5.5 | 2.1 | 2.6 | 3.2 |
| 1985 | 3.5 | 7.0 | 2.9 | 1.1 | 4.8 | 12.3 | 2.9 | 6.8 | 0.8 | 3.8 | 2.9 |
| 1986 | 2.4 | 5.5 | 2.6 | 1.2 | 5.6 | 11.2 | 2.9 | 5.7 | 0.9 | 0.3 | 2.8 |
| 1987[c] | 2.4 | 4.4 | 2.1 | 1.7 | 6.3 | 10.3 | 2.8 | 4.9 | 1.2 | (3.9) | 1.6 |
| 1988[d] | 2.3 | 3.3 | 1.9 | 2.3 | 6.3 | 10.0 | 2.7 | 4.9 | 1.1 | (2.6) | 0.3 |

[a] Figures for surpluses are in parentheses.
[b] *Sources*: Organization for Economic Cooperation and Development data and OECD's "Economic Outlook" (May 1988).
[c] Estimates.
[d] Forecasts.

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Table II. Federal Debt as Percentage of GNP, 1973-86[a]

| *Country* | *1973* | *1986* | *Percent Change* |
|---|---|---|---|
| Australia | 10.8 | 55.9 | 417.6 |
| Spain | 13.8 | 49.0 | 255.1 |
| Sweden | 22.5 | 68.8 | 205.8 |
| Japan | 30.9 | 90.9 | 194.2 |
| Belgium | 54.0 | 123.2 | 128.1 |
| West Germany | 18.6 | 41.1 | 121.0 |
| Italy | 52.7 | 88.9 | 68.7 |
| Netherlands | 43.2 | 72.2 | 67.1 |
| Canada | 45.6 | 68.8 | 50.9 |
| France | 25.4 | 36.9 | 45.3 |
| U.S. | 39.9 | 56.2 | 40.8 |
| Switzerland | 30.3 | 32.5 | 7.3 |
| U.K. | 71.8 | 57.7 | -19.6 |
| **Weighted Average** | **37.5** | **62.1** | **65.6** |

[a] *Source*: Bank for International Settlements.

deficit would prevent interest rates from falling. When interest rates collapsed, the Council of Economic Advisors predicted, in the 1983 *Economic Report of the President*, that the deficit would crowd out private investment and prevent an economic recovery. When the recovery began, it was alleged that the deficits would prevent the dollar from falling and would "deindustrialize" America. When the dollar fell, the "crisis" was blamed on a budget deficit that, only a few months before, was supposed to prevent "dollar adjustment." All the while, as important financial publications and renowned economists compiled a record of being completely wrong year after year, they continued to charge that Reaganomics was "voodoo economics" and to predict economic decline.

Critics still attempt to blame Reagan's policy for causing a "global imbalance" by making the U.S. a debtor nation. The caricature of the U.S. as "the world's largest debtor" is based on faulty accounting that compares older book values of U.S. investments abroad with the more recent values of foreign-owned U.S. assets. When U.S. overseas assets are valued at current prices, the picture changes dramatically. Moreover, during the period of hysteria over American indebtedness, U.S. income from its foreign assets continued to exceed the income paid to foreigners from their American investments. But this is not the main point.

The notion that "mature" industrial countries are natural exporters of capital reflects the old Keynesian view that such countries "stagnate" as they mature, that they run out of profitable investment opportunities at home. But the rate of return on invest-

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ment is best calculated after taxes. When tax rates are lowered, the number of profitable investments rises. The "imbalance" caused by the Reagan administration was to raise the after-tax rate of return in the U.S. relative to the rates that apply in the rest of the world; this action encouraged foreign investment in this country, and discouraged American investment abroad.

## The savings rate

Critics have also painted a distorted picture of U.S. savings and investment during the 1980s. Analysts have focused on statistical series that provide the least favorable view, such as growth in the net stock of business fixed capital, net private savings, and the personal savings rate. These statistics are fundamentally misleading, however.

The decline in the personal savings rate has attracted the most critical attention. Statistics show that gross personal savings have fallen as a percentage of GNP. During 1947-81 they averaged 4.8 percent; during 1982-87 they averaged 3.7 percent. However, this decline reflects demographics and the way "savings" are measured.

The coming of age of the postwar baby boomers has notably reduced the personal savings rate, since young adults have notoriously low savings rates while they acquire homes and furnish them. In figuring GNP, rental values are imputed to housing and counted as "consumption," whether the housing is owned or rented by the occupant. Whenever there is a demographic bulge of young adults forming households, the "consumption" of housing will rise relative to disposable income, as rents are bid up and debt is used to purchase housing and its accoutrements.

Thus, since savings are defined as what remains after "consumption," they tend to fall whenever population trends produce a larger proportion of young adults. Economist Edward Yardeni estimates that demographics account for 68 percent of the decline in the savings rate during the 1980s. As the demographic trend reverses in the 1990s, the personal savings rate will rise.

Other factors have also worked to lower the savings rate in the 1980s. The severe 1981-82 recession brought down both personal and public savings rates. This is not surprising. A tenet of Keynesian economics, after all, is that recessions are periods of dissaving. The unemployed cannot save, and savings are drawn down to maintain living standards. The government cannot save—its budget automatically accumulates red ink as tax receipts fall and unemployment payments swell. And when a recession's deficits are financed at

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historically high interest rates, as was the case in 1981-82, still more red ink is produced. Since recessions cause pent-up demand and force consumers to defer purchases, the initial stages of recoveries are also characterized by low savings.

Many economists believe that the extraordinary rise in the value of financial assets such as stocks and bonds also lowered the personal savings rate during the Reagan recovery. They argue that this large increase in wealth caused people to increase consumption, thus lowering the savings rate. Paradoxically, even supply-siders underestimated the rise in wealth that their policy would cause. But no one ever claimed that a tax-rate reduction could fully offset the economic effects of demographic changes or the impact that first the recession and later the sharp rise in wealth would have on savings rates.

The remarkable fact is that the rise in business savings during the 1980s (resulting largely from faster depreciation) has offset the fall in the personal savings rate. Despite the factors working to lower personal savings, the gross private savings rate (which includes personal and business savings) has averaged 16.7 percent during the Reagan recovery, compared to 16.6 percent during the 1947-81 period.

The focus on the personal savings rate as a measure of supply-side success allows critics to ignore the adverse impact on savings of demographics, recession, and a jump in wealth. But the statistical facts are inconsistent with the picture of the U.S. economy as a consumption-driven machine fueled by large deficits that threaten the world with inflation. Critics who claim that the Reagan expansion is nothing but a deficit-fueled Keynesian consumption binge should explain why a Keynesian policy did not work for President Carter. Why did smaller deficits lead to a worsening inflation trade-off for Carter, while larger deficits were accompanied by declining inflation under Reagan? There was a bad recession in 1974-75, but it was not followed by a six-year expansion with low inflation. And if the Reagan tax-rate reductions have brought the American economy to its knees, as so many critics have claimed, why are so many other countries now cutting their tax rates?

As the saying goes, the proof is in the pudding. If Reaganomics had brought the U.S. economy to its knees, America would be experiencing massive capital flight. Instead, since 1982 Americans have curtailed their export of capital, and foreigners have sunk hundreds of billions of dollars into real investments in the U.S. Why should we believe the critics and not the investors?

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# Containing medical costs: why price controls won't work

WILLIAM J. BAUMOL

MEDICAL CARE, like higher education and many other vital services, has become steadily more expensive in recent years. The rising price of medical care constitutes a serious social problem, particularly in its effects upon the less affluent. A commitment by senior policymakers to find a rational and effective solution is urgently required.

Unfortunately, as in many analogous cases, people have been tempted to solve this problem with price controls imposed by legislative fiat. This approach is no more rational than a law dealing with the problem of AIDS by prohibiting its occurrence. Indeed, price-control measures are *worse* than an attempt to cure disease by legislative or regulatory commands. While the latter would provide no solution, price controls would have serious side effects, which would exacerbate the very problems they are intended to alleviate.

The imposition of ceilings upon the service fees charged by physicians under Medicare would be precisely this sort of misguided measure: it would do nothing to eliminate the basic cause of rising medical-care prices and would threaten to reduce the quality—and ultimately the quantity—of medical services available to Medicare

*I am grateful to the American Medical Association for support of an earlier version of this paper. The views expressed here, however, are entirely my own.*



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patients. Congress has asked the Physician Payment Review Commission to make recommendations to reform the Medicare reimbursement of physicians. The Commission has already endorsed standardized fee schedules for the government's reimbursement of doctors; it is scheduled to decide whether to recommend either limits on the amounts which physicians will be permitted to bill Medicare patients above what those doctors receive from Medicare, or the elimination of such supplementary billings altogether. Either choice will amount to a price ceiling imposed by government for Medicare treatment.

What has elicited these proposals? From 1947 to 1986 the Consumer Price Index increased at an average annual rate of about 4.2 percent per year compounded, whereas the price of a visit to a general medical practitioner rose nearly 5.5 percent per annum. This difference may not seem very large, but over those thirty-nine years it increased the price of a visit to a physician 150 percent in dollars of constant purchasing power. During this period the price of a hospital stay rose at an even higher rate. In the same postwar period, the price per patient per day at a hospital increased at an average annual rate of 11.7 percent compounded. This amounts to a 1,750 percent rise in constant dollars. Such increases constitute a serious threat to the quality of medical care that middle- and lower-income people can afford.[1]

Inevitably, the rising cost of medical care has been blamed on price-gouging by greedy doctors. More sophisticated variants of this approach have attributed part of the problem to the monopoly power supposedly exercised by physicians.

One can grant that neither the structure nor the operation of the medical-care market fits the economists' theoretical ideal of perfect competition; furthermore, it would be highly desirable to promote any measures that could increase competitiveness in the industry. Several attributes of the health-care industry have been said to impede competition. These include consumers' imperfect knowledge of health-care services, the limitations on the number of students who can be accommodated by our medical schools, and the requirement that a physician obtain a license in order to practice (which particularly handicaps foreign doctors). Furthermore, the

[1] There are offsetting factors, however. Growing knowledge and improved medical techniques indisputably mean that patients are getting better care for their money than they were forty years ago. And to the extent that innovation has reduced the length of treatment some illnesses require, expenditure per illness has probably risen correspondingly less quickly than cost per patient-day.

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price of health care is frequently not borne completely by those who purchase it; this can serve as a disincentive for forceful price bargaining or careful shopping.

However, the *current* degree of competitiveness in the field of medical care is irrelevant to the central issue before us: the rapid and persistent *rate of increase* in the prices of medical care. If one were to assume, for the sake of argument, that markets for medical-care services were in a highly uncompetitive rut, this premise might explain why medical prices are relatively high at some given time. However, it *cannot* explain the rapid and persistent rise in those prices over a period of many decades. For weakness of competition to be a plausible explanation of rapidly *rising* medical prices, the market's degree of competitiveness, whatever its state was earlier, must have been *declining* persistently. Otherwise, the full monopoly prices would have been imposed many years ago, instead of being introduced gradually (at a considerable earnings sacrifice by the monopolists) via gradually rising real prices.

## The increasing competitiveness of the medical market

The available data indicate, however, that instead of growing weaker, competitiveness in medical-care markets has been *increasing* for well over a decade. This is shown by the growing number of suppliers of medical services—both the number of physicians who already practice and the increased rate of entry into the field by medical-school graduates. In addition, health-delivery organizations, retailers of medical services, and the number of people who subscribe to them have also grown tremendously during this period. Despite the increase in the supply of medical services, real incomes of physicians have remained virtually constant for more than a decade. The rising competitiveness in health care indicates that monopoly power cannot explain the trend of rising health-care prices.

The basic strategy of any group seeking to increase the demand for its services (and hence the income that its members can command) is to restrict the number of suppliers; with respect to medical care, this would of course entail restricting the number of physicians. A study of the data from governmental publications and from American Medical Association (AMA) files reveals, however, that between 1970 and 1985 the total number of active physicians in the United States increased from 312,000 to 511,000, a rise of 64 percent; the number rose at an annual rate of increase of 3.3 percent. The scarcity or abundance of doctors, though, is not determined

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simply by the number of physicians, but by the proportion of physicians relative to the size of the population at large. Again the trend is clear. The ratio of physicians to population has also risen steadily, from 1.53 per thousand in 1970 to 2.14 per thousand in 1985. This is an increase of 42 percent in fifteen years, which yields an average rate of increase of 2.2 percent per year.

This trend is shown in a graph (Figure I) taken from a paper by Monica Noether of the Federal Trade Commission. Her study shows a steady decline in the physician-population ratio that lasted at least from 1910 to 1930, and resumed in the first decade after World War II. The picture has been very different since 1960, however. During this period the physician-population ratio has risen sharply to levels apparently never before achieved. That is hardly what one would expect to see in a segment of the economy in which the intensity of competition was decreasing.[2]

Another gauge of competitiveness in an industry is ease of entry —a powerful, widely recognized force that can prevent uncompetitive behavior. Excessive earnings, the prime goal of those who attempt to restrict competition, are an irresistible magnet to entrants if barriers to entry are negligible. The new entrants charge reduced prices that sink monopolistic pricing practices. Increasing ease of entry, then, is a sure sign of growing competitiveness.

Again, the trend is clear. The bulk of new physicians enters the field from U.S. medical schools. Data regularly reported in the *Journal of the American Medical Association* indicate that between 1970 and 1986 the number of applicants accepted by U.S. medical schools rose nearly 50 percent—from 11,500 to 17,000. Similarly, the number of medical-school graduates rose from some 9,000 in 1970 to more than 16,000 fifteen years later—an increase of 80 percent. During the past four or five years these figures have declined slightly—but negligibly compared with the increase preceding the decline. Moreover, in recent years the schools have responded to a fall in applications by raising the ratio of acceptances to applications from 45 percent in 1970-71 to 56 percent in 1986-87. Thus, medical schools do not provide a barrier to entry into the medical field, contrary to what has generally been assumed.

In his study on the free market in health care, H.E. Frech III suggested that there were a variety of impediments to establishing

[2] It should be noted, however, that while developments on the supply side clearly play the important role suggested here, a rise in the physician-population ratio may also be attributable, to some degree, to increasing demand for physician services. This increased demand is ascribable to rising per-capita incomes, the improved quality of medical services, and the aging of the population.

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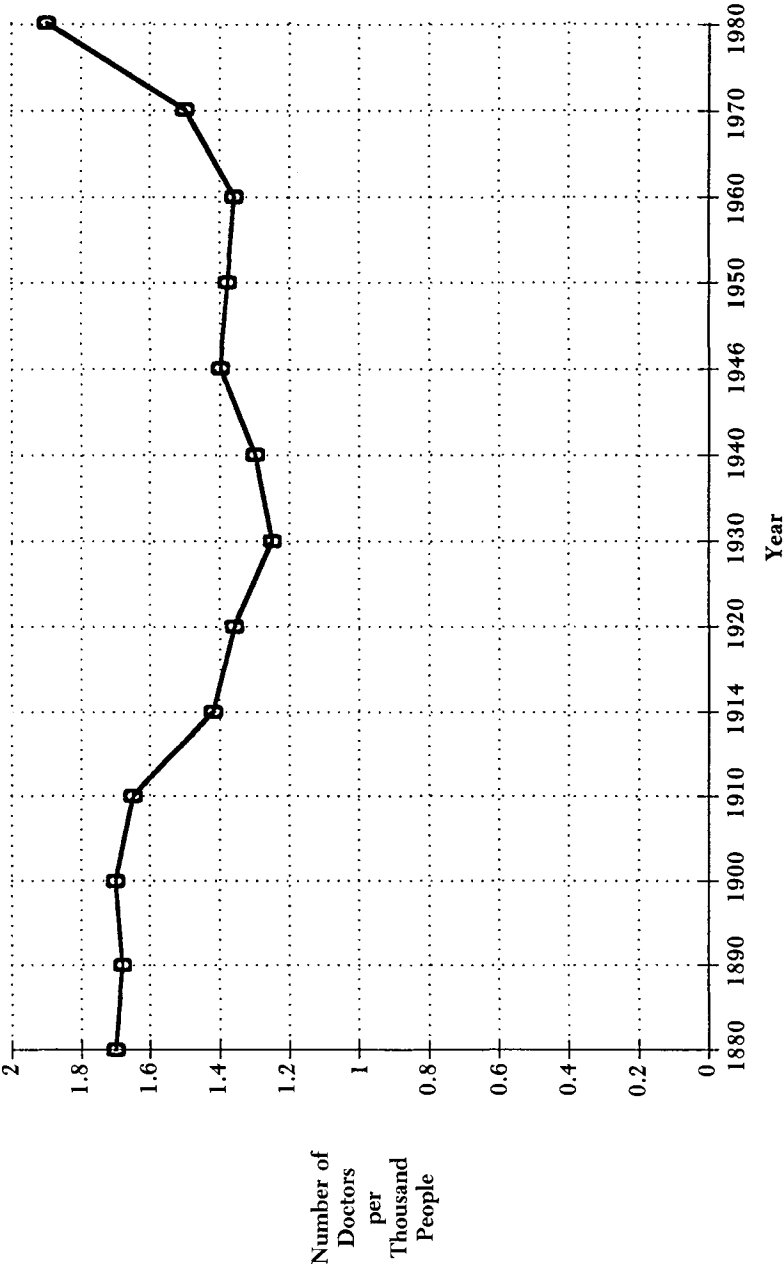


Figure I. Physician-Population Ratio, 1880-1980[a]

[a] *Source:* Monica Noether, "The Growing Supply of Physicians: Has the Market Become More Competitive?" *Journal of Labor Economics*, 4 (1986), p. 506.

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organizations such as HMOs, which can exert downward pressure on prices by delivering more economical medical care. Nevertheless, there has been a consistent growth in the number of HMOs, and the number of persons enrolled in them has grown comparably. In just two years (from 1985 to 1987) the number of such organizations increased more than 40 percent, from 337 to 480. The annual rate of growth in total enrollment was an astonishing 22.4 percent in 1984 and 25.7 percent in 1985. Growth of PPOs (preferred-provider organizations) was even faster. The number of PPOs exploded from a mere thirteen such organizations in 1980 to 454 in 1986. In sum, the structure of the medical-care industry is undergoing a dramatic metamorphosis, and becoming increasingly competitive.

The earnings of physicians provide the ultimate evidence of growing competitiveness. If competitiveness had been declining, we would expect to see a persistent rise, both in earnings corrected for inflation and in earnings relative to other occupations. *Medical Economics* magazine and AMA surveys report the trends in both nominal and real net physician incomes (net of expenses and before taxes) for the twenty-six year period 1959-1985. Not corrected for the effects of inflation, average incomes rose approximately five-fold, from $22,100 to $113,200. However, because the Consumer Price Index also rose comparably, *real* average physician income at the end of the period stood almost where it had been in 1965, at $29,500 in 1967 dollars—a figure which fell fairly steadily after 1970. In 1986, this figure rose slightly, but not enough to bring it back to its 1970 level.[3]

One way to test whether an industry has monopoly power is to compare earnings in that industry with those in fields that compete with it for potential entrants. Incomes out of line with those earned for comparable work elsewhere can be maintained only if something prevents genuine competition among the various fields. This observation underlies Noether's study of trends in the competitiveness of physician supply. Figure II also provides the pertinent information, covering the period 1946-1982. Noether focuses on the earnings in the professions competing with medicine for entrants—thereby indicating the future income that the medical student for-

[3] Specifically, in 1986 physician incomes rose 6.5 percent on average; the increase (like that of university professors) represented, after a long hiatus, a rise well in excess of the 1.1 percent rate of inflation and the 4.4 percent rise in average earnings of American men. Still, this was largely the result of longer hours of work, with the mean fee per office visit manifesting the lowest rise in ten years. Predictably, the rises in income have been denounced as "outrageous" and "scandalous." See the *New York Sunday Times*, Section 1, Nov. 22, 1987, p. 43.

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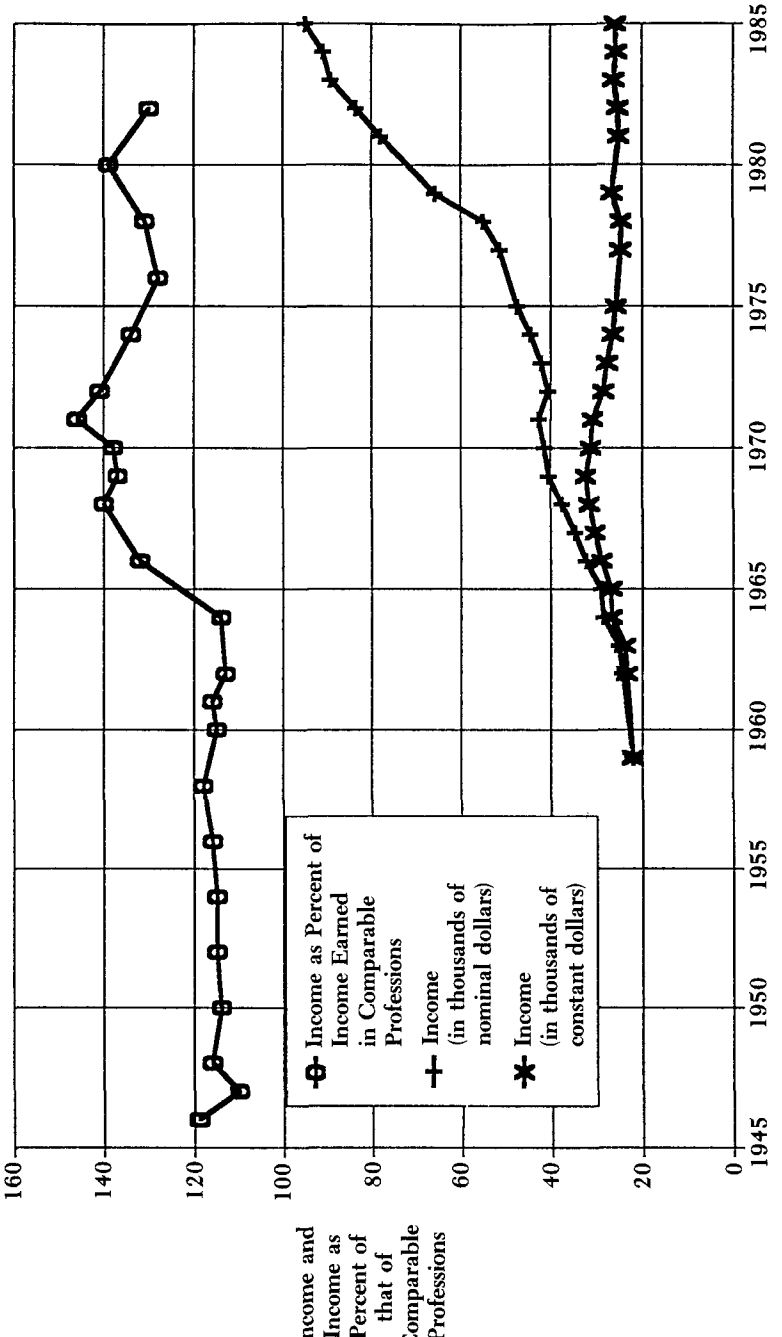
Figure II. Physician Income in Nominal Dollars, in Constant Dollars, and as Percent of Income Earned in Comparable Professions, 1946-1985[a]




[a] *Sources*: 1. Physician income as percent of income earned in comparable professions: Monica Noether, "The Growing Supply of Physicians: Has the Market Become More Competitive?" *Journal of Labor Economics* 4 (1986), p. 509.
2. Physician income in nominal dollars: "Net Income Before Taxes for Non-salaried Physicians," *Medical Economics* (various years); AMA Center for Health Policy Research, *Socioeconomic Characteristics of Medical Practice*, 1986, p. 17 ff.
3. Conversion of nominal into constant dollars: Consumer Price Index for 1959-1985, in *Economic Report of the President*, 1986.

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goes by deciding to become a doctor. The graph shows that the ratio of physician income to earnings in other relevant professions fell slightly over the long interval 1946-1964, a period of nearly twenty years, and then rose in the next eight years. However, since 1972 the ratio has fallen substantially, giving up about half the gain of the preceding eight years. Thus, for more than a decade, relative physician earnings have indeed fallen in the manner one would expect to find in a market whose competitiveness is increasing.

Noether subjected this evidence to more sophisticated econometric tests. Her study concludes that the market "has moved toward the competitiveness extreme since 1965." She estimates that this increased competition has raised the number of doctors by 6 to 20 percent and has lowered doctors' salaries by 19 to 45 percent of what they would otherwise have been.

All the evidence thus leads to the conclusion that the rising price of medical care, the basic source of concern, cannot be ascribed to declining competitiveness of the medical-care markets or to any enhanced ability of doctors to extract higher fees from their patients. We must therefore turn elsewhere to find the true causes of the problem and to design policies to deal with it.

## "Cost disease"

No single explanation can account for changes in the costs of services as variegated as those included in medical care. One important component, however, has been largely overlooked in the discussion. The price of any product is heavily influenced by the efficiency with which it is produced. Improvements in efficiency—common among new, high-technology products such as personal computers—tend to stabilize and sometimes even to lower the price of a product over time. Personal-service industries such as health care undergo little change in efficiency of production, and so lack this price-stabilizing element.

The quality of medical care is dependent on the personal attention that the patient receives from the physician. Illness does not come in a few simple, pre-packaged models. A doctor who begrudges time to patients short-changes them as much as a teacher does his students when he avoids spending time with them. Consequently, although tremendous advances in the field of medicine have been made, the amount of time a doctor must spend with his patients has remained the same. As long as one makes no adjustment for rising quality, productive efficiency in medicine has not improved, and is not likely to do so in the future.

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Over the past century efficiency in manufacturing the typical product in the U.S. economy, including services as well as goods, has grown at a compounded rate of 2 percent annually. This has yielded a staggering productivity increase of 1,100 percent. If one assumes that relative input prices in medical services stay more or less the same as those of inputs in the rest of the economy, then medical costs—with virtually no productivity-growth offset—will rise about 2 percent a year faster than the costs of other typical products of the economy (whose input-price increases are offset by the rise in their productivity).

For example, if the wages and prices of all inputs of product X rise 5 percent, but their hourly productivity rises 2 percent, then the net effect will be a 3-percent increase in the cost of a unit of product X. But a similar 5-percent rise in input costs and wages in medicine will necessarily lead to an approximate 5 percent rise in the cost of medical-care service, because there is little or no intervening growth in productivity to contain the cost rise. This "cost disease" of the personal services explains much of the persistent increase in the costs of such services as education, entertainment, postal delivery, and health care.[4] The "cost disease" explanation, however, is not the entire story.

## Quality costs

If the "cost disease" completely explained rising medical prices, then the relative price of medical care should grow at the same rate as those of other personal services, such as education. Figure III summarizes the pertinent facts. It shows four time-series for the period 1947-1986: the CPI, as an indicator of the economy's overall rate of inflation; an index of the cost of a hospital stay per patient-day; an index of the price per visit to a general practitioner's office; and, for comparison, an index of the cost of elementary education per pupil-day. All of the data are derived from U.S. government sources identified in the attachment following the Figure. For ease of comparison, the indices have all been constructed so that 1947 = 100

[4] My favorite illustration of this cost-disease phenomenon is the performance of a string quartet written by Mozart for a half-hour performance. Since the eighteenth century nothing has contributed to the productivity of a live performance of this composition. There has been no reduction either in the equipment (four instruments) or the labor time (two person-hours) required. Meanwhile, since the time of Mozart, the amount of labor and the cost of the inputs required to produce a loaf of bread has probably decreased about twenty-fold. This means that the cost of admission to a concert, measured in terms of number of loaves of bread, must be about twenty times as high today as it was at the time of Mozart.

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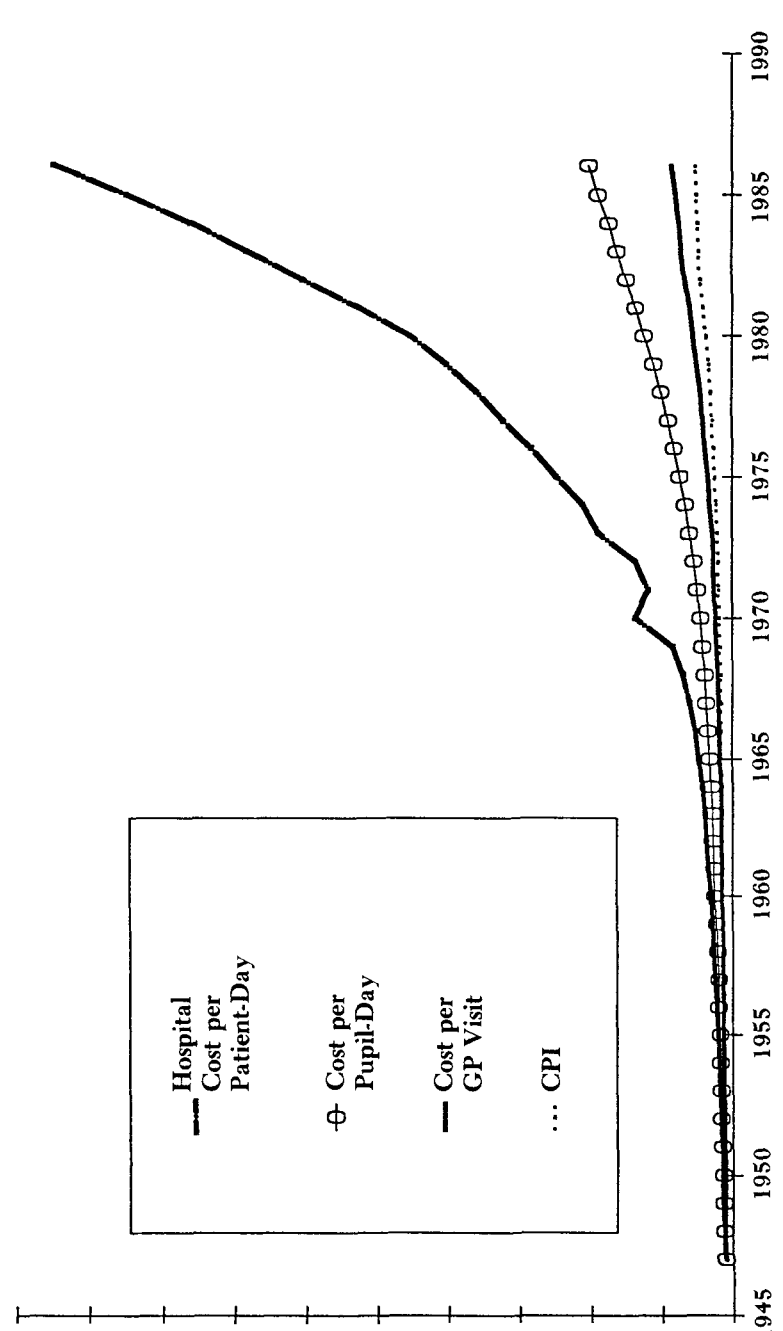
Figure III. Cost Indices for Three Activities, 1947-1986[a]




[a] *Sources*: 1. Cost per GP Visit: Socioeconomic Monitoring System and Periodic Survey of Physicians surveys, and Bureau of Labor Statistics Consumer Price Index for general practitioners' office visits.
2. Cost of a Hospital Stay per Patient-Day: Bureau of the Census, *Statistical Abstract of the United States*, various years.
3. Cost of Education per Pupil-Day: 1947-67 data from D.F. Bradford, R. A. Malt, and W. E. Oates, "The Rising Cost of Local Public Service: Some Evidence and Reflections," *National Tax Journal*, June 1969, p. 190. More recent data from U.S. Department of Education, *Digest of Education Statistics 1987*.
*Note*: For cost per patient-day and cost of education, several figures were estimated by interpolation (extrapolation).

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—which means that they have all been shifted to start at the same point in the graph. From that beginning, each curve rises at the year-by-year rate indicated by the underlying data.[5]

Each of the three graphs other than the CPI assumes the general shape suggested by the cost analysis, increasing cumulatively and fairly steadily. They all increased significantly faster than the CPI, but the three growth rates differed markedly. Over the entire period the annual growth rate of the CPI averaged about 4.2 percent. The increase in the price of a visit to a physician was modestly higher: 5.5 percent. The cost of education per pupil per day increased at a higher rate: 7.7 percent. But the cost per day of hospital care is very different; it exploded, with a growth rate of 11.7 percent, which may have been offset by a decline in the average length of a hospital stay.[6] Clearly, the resulting difference requires something other than the "cost disease" to explain the rise in price.

The difficulty of labor-saving innovation in medical care does not rule out innovation of other kinds. In fact, medicine has undergone some of the most dramatic innovations in recent history. However, the result of these advances has been to improve the quality of medical care rather than to reduce its costs. Indeed, studies by Louise Russell indicate that improvements in medical-care technology have characteristically increased costs, as is consistent with our cost-trend hypothesis.

The major cost increase in medical care comes from the improved quality of hospital equipment and medical technology, which explains the sharper increase in the cost of a day at a hospital than in that of a visit to a doctor. Although some equipment is needed in a typical doctor's office, it constitutes a minor share of his total outlays. On the other hand, the typical modern hospital now requires the in-

[5] The comparisons in Figure III are not perfectly parallel. For instance, the index of price per office visit to a physician does not include all derivative or related costs of this activity—e.g., follow-up tests, X-rays, and further examinations. The index for cost of education per pupil-day, on the other hand, includes all public expenditures —both primary and derivative—involved in the education process. This lack of strict parallelism is not of significance here, however, because Figure III's purpose is not to claim that the rate of increase in medical prices has been modest compared to that of educational costs, but rather to show that both have exceeded the rate of inflation.

[6] This decline in average length of hospital stay may have been caused, in part, by Medicare's adoption of the DRG (Diagnostic Related Group) system of reimbursing hospitals. The DRG program reimburses hospitals a fixed amount for a given service, regardless of the hospitals' actual costs. Consequently, the system creates an incentive for hospitals to treat as many patients as possible on a less costly outpatient basis. The index for cost of hospital operation per patient-day, therefore, may be offset to some extent by this shift to outpatient treatment. On the other hand, the fact that under the DRG system only sicker patients remain in the hospital may have a countervailing effect on the index for hospital costs per patient-day. The net result is uncertain.

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creasingly sophisticated equipment needed for diagnosis and treatment. If the introduction of innovations in the components of hospital operations had not affected crude productivity growth, then the cost of a hospital stay should have risen no faster than that of an office visit.

## The problem with price controls

In the face of rising hospital costs, and rising medical costs more generally, legislatures are being pressured to do something; in this case, the public clamor is for government-set price controls for Medicare treatment. Before addressing the merits of this approach, we should note one feature of this proposed solution: its narrow focus upon the prices paid by the elderly. It is not at all obvious that this restriction is appropriate. The legitimate subjects for public concern are the impoverished, whatever their age group may be.

But whether the objective is to protect all the impoverished or only the elderly, price controls are a poor means to do so. It is useful first to review the general objections to price controls, and then to consider whether there is anything unique about the medical-care markets that could modify this evaluation.

Every market sector affected by price controls for any substantial period has eventually been harmed by them. Thus, despite rent controls, rents in New York City have more than doubled in the last ten years. Despite laws against ticket scalping, tickets for popular shows and sports events sell at tremendous premiums—$60 tickets to the 1984 Super Bowl were reportedly sold for as much as $500. Taxis cost much more in New York (where they are highly regulated) than in Washington, D.C. (where they are not). The list of examples goes on and on.

Whenever lawmakers and regulators have been dissatisfied with the outcome of the operations of the market system, they have been tempted to tinker with market forces. But in case after case when legal ceilings on prices have been imposed, virtually the same consequences have ensued.

First, persistent shortages frequently occur when prices are kept artificially low. Queuing, direct rationing, and a variety of other devices, usually inefficient and unpleasant, have been substituted for the distribution process provided by the market.

Secondly, attempts to control prices have failed in industries with numerous suppliers, because the regulating agency cannot monitor the behavior of many sellers. Ways have been found to evade or to violate the law; and in the ensuing "black market"

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something akin to the free-market price has generally reemerged, with one difference: since the evasion mechanism, whatever its form, entails some risks and operating costs, these added costs must be borne by the consumer.

In addition, fears that a system of price controls will break down have invariably led to regulations designed to bolster it. Consumers have been told when and from whom they are permitted to buy. The powers of the police and the courts have been used to prevent the entry of new suppliers. Occasionally, an intricate system of market subdivision has been imposed, giving each class of firms its protected category of operations, in which others are not permitted to compete. Laws banning conversion of rent-controlled apartments to condominiums are an example of this practice.

Finally, to the extent that the controls have succeeded in constraining prices, they have also reduced the volume of the price-controlled product or service that is provided. Curiously, this has happened regardless of whether the regulated price was above or below the free-market price. When the imposed price is set above its market level, the quantity demanded will be below the equilibrium quantity. On the other hand, if the imposed price is set below the free-market level, the quantity supplied will be reduced. Because sales volume cannot exceed the lower of the quantity supplied or the quantity demanded, a reduction in the volume of product provided has frequently resulted.

Thus, price controls are not merely a harmless aberration. Inevitably, their unintended consequences do serious damage, imposing heavy burdens upon just the persons they are intended to protect.

## Price controls and medicine

The general shortcomings of price controls fully apply with respect to medical care. Because of the cost disease and the character of new medical technology, the costs of medical care will almost certainly continue to rise, despite any legal restrictions limiting the prices that doctors can charge. Although some doctors may be led to undertake economy campaigns—firing receptionists or moving to less expensive offices—such cost-saving measures represent one-time contributions to cost reduction. As offsets to cumulative cost pressures, such campaigns are no more than cosmetic changes. These economy campaigns cannot be repeated indefinitely, and once carried out they can do nothing more to counteract the continuing trend of rising costs.

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As a result, a system of price ceilings upon Medicare fees will subject physicians to a cumulative squeeze. With fees fixed and costs rising, the outcome is predictable. The declining difference between receipts and costs will come out of physicians' incomes. Thus, proposed price ceilings are tantamount to a requirement that doctors themselves provide a subsidy to offset the consequences of rising costs. Apart from whatever doubts one may have about the equity of such a step, it is certain to backfire and to impose an enormous cost on society.

The case of rent controls illustrates this point. The periodic attempts to deal with the rising costs of constructing, maintaining, and operating housing by shifting the burden of higher costs to landlords have repeatedly produced the predictable harmful consequences: they have reduced both the amount and the quality of the available housing. As one astute observer once remarked to me, "rent controls may not be quite as effective as aerial bombardment in destroying a city, but it is a very close call."

In the case of medical care all of the adverse effects will not be felt immediately. It is unlikely, for example, that there will be a rush of American doctors seeking to emigrate. But in the long run, both the quantity and quality of entrants into the medical field will be significantly affected. Just as lagging salaries in elementary schools have produced shortages of teachers (particularly in the sciences, where more lucrative careers are readily available to those qualified to teach), restrictions that reduce doctors' incomes will discourage entry into medicine. Students looking forward to generating professional-level incomes for themselves and their families will think twice before undertaking the long period of preparation —involving years of schooling and residence—that is required for a medical career. Entry into law schools and business programs will become relatively more attractive, and medical care will suffer commensurately.

This would be the end of the analysis if what were being proposed was a ceiling on all medical charges, not just those of Medicare patients. However, such a selective ceiling would simply discourage doctors from serving a particular group of patients—the poor and elderly. The partial character of such controls leaves an alternative to doctors whose incomes are threatened. They can redirect the bulk of their activities to the areas unaffected by the controls. If the fees for treating the elderly are the only ones subject to controls, better physicians may choose to serve a younger clientele. Not all doctors will find it easy to do so; nor will all of them want to do

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so. Still, this will be the aggregate result, and the doctors with the best reputations will have the greatest opportunity to change their practices.

Here again, the distressing record of rent controls is instructive. Although some cities have chosen to avoid universal controls, and have instead elected to confine rent ceilings to the housing of particular groups (such as the poor), the adverse effects have still been consistent and dramatic. In more affluent communities there was a boom in the construction of office space and luxury housing. But housing for the poor deteriorated drastically, and much of it was abandoned.

## Contradictory arguments

Advocates of price controls for Medicare services make two contradictory claims about the moral propensities of members of the medical profession. First, as already noted, they often ascribe rising prices to the avarice of the doctors. But when it is pointed out that price ceilings on services to the elderly will mean worse services for them, these proponents of price regulation eloquently conjure up the vision of selfless doctors, who are so dedicated to the welfare of humanity that they can be counted upon to persist in providing medical services—whatever personal sacrifices in income may be entailed.

The hypothesis that the medical profession is composed, to a greater degree than other professions, of morally superior beings conflicts with the evidence. Doctors do not appear, in this respect, to be consistently different from businessmen, lawyers, or academics. There is no reason to assume that doctors will not withdraw their services from care of the elderly when relative income in this area is restricted.

Several formal studies confirm this conclusion. One such study, a sophisticated econometric analysis by Sloan, Mitchell and Cromwell, concludes: "States offering meager fee schedules in an attempt to economize on program expenditures must expect to pay the price in terms of substantial reductions in physician cooperation with the program. Assertions by organized medicine and individual physicians to the effect that Medicaid reimbursement levels affect physician participation tend to be self-serving. Hence, external validation of the claims is desirable. This study presents the first empirical evidence directly linking Medicaid reimbursement levels to physician participation in this program. Our evidence on fee schedule effect is consistent with other research."

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The conclusion from this and other evidence is clear. Those who propose to solve the problem of rising medical-care prices by means of legislative or regulatory fiat must understand that the increased costs of providing medical care will have to be paid. Those costs must be paid by someone—either the consumers of services, the providers of services, or the government. Requiring the providers—the doctors—to pay the cost out of their incomes would ensure that fewer people will become doctors and that fewer of them will care for the elderly. Thus, the real burden of this proposal would be borne by those whose interests it was intended to protect. It is the elderly themselves who will surely suffer the consequences, in the form of reduced and inferior medical services.

## Toward effective programs

Designing a program to grapple rationally with the "cost disease" problem will not be easy, and will require an extensive and thorough study of its own. But it is worth noting that promising options are available. At least three such possibilities suggest themselves: introducing anticipatory budgeting, funding research designed to culminate in cost-reducing innovations, and taking steps to increase competitiveness.

The cost disease is hardly a new phenomenon, and there is enough information available to permit rough but reasonably reliable prediction of its future course. This means that rather than planning budgets for programs such as Medicare and Medicaid on the basis of the current cost of medical services, policymakers and other insurers should project the future costs to be covered as well, and rescale the funding arrangements accordingly. Plans are already under way for private programs that undertake such an approach to the funding of college tuition for individual students in the future; the problems here are not dissimilar to those of medical care, since education is also subject to the cost disease.

Secondly, there may be areas of medical practice that are not incompatible with some degree of automation and labor saving. For example, illnesses with obvious and predictable symptoms may lend themselves to computerized diagnoses. There may also be opportunities for expansion of automated patient-care arrangements to monitor heartbeat, blood pressure, and breathing, and even to make decisions about what medication to administer. My purpose, of course, is not to lay out the details of such technology, but to suggest the possibility of expanded research funding explicitly directed

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toward improving productivity and reducing the amount of time and other resources used in providing medical care.

Finally, careful exploration of changes that can further increase the competitiveness of health care is certainly worthwhile as well. Steps to facilitate licensing of physicians with foreign degrees are worth considering. However, it must be remembered that a once-and-for-all rise in competitiveness will cut costs only once and for all; it will not offset the trend of rising costs, which is the basic problem.

The possibility that the cost disease may not be completely remediable by such measures is not itself a reason for deep gloom. Viewed broadly from the perspective of the economy as a whole, as opposed to separate areas (including medical care, education, urban services, and the performing arts) where its effects are most immediately felt, the cost disease, paradoxically, is a benign phenomenon. It is, after all, merely the other side of the economy's overall productivity growth. It means that relative medical costs rise, in part, because improvements in the efficiency of medical care have not been able to stay abreast of those in manufacturing and agriculture.

An economy whose productivity is growing nearly everywhere is becoming wealthier, not poorer. Rising productivity offers consumers the ability to acquire more of every product, even those afflicted with the cost disease. The public today can and does receive more medical care and education than it has ever received before. Recognition of this fact shows that control of the cost disease is by no means impossible; it only requires an appropriate reordering of priorities.

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# Illusions of job segregation

JAMES P. SCANLAN

IN THE SPRING of 1979 a short article in the *Washington Post* summarized the testimony before a House oversight committee of the director of a federal agency. In the course of questioning the director about his agency's employment policies, the *Post* reported, a member of the committee had noted that 55 percent of the agency's minority employees were employed in grades GS-7 or below. The director replied that a similar proportion of all the agency's employees were in those grades.

One assumes that the question was intended to suggest that minorities were excluded from grades above GS-7 because of racial discrimination. Did the answer refute this? Not necessarily. The figures, which showed that the agency's minority employees were generally distributed in the higher and lower pay grades in the same manner as the agency's entire work force, failed to indicate whether those minorities comprised, say, 1 percent or 30 percent of that work force. The figures did say something about the agency's minority-employment practices, however. They did not suggest that the agency had excluded minorities from the higher grades (as the questioner, focusing on a supposed overconcentration of minorities in lower grades, had assumed); they suggested, rather, that the agency had excluded minorities from the *lower* grades.



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The agency in question, like most such agencies in Washington, recruited its employees for grades above GS-7 disproportionately (that is, relative to its lower grades) from a nationwide pool of college graduates and individuals with administrative and policy expertise; minorities comprise a modest percentage of this labor market. For jobs in grades GS-7 and below, a large proportion of which were relatively unskilled clerical positions, the agency recruited disproportionately from the Washington area, where minorities comprise a high percentage of the relevant labor market. Hence, if the agency had employed minorities in the lower grades in proportion to their representation in the labor market relevant to those positions, a higher proportion of its minority than its white employees would have been in those grades.

But the questioner did not consider that minorities might be discriminatorily excluded from the lower grades. Moreover, if the agency had been discriminating against minorities in hiring for those positions, it was given considerable incentive to continue to do so, lest increased minority representation in the lower grades be read as evidence of minority exclusion from the higher grades.

This is an example of the expectation—fallacious in its nature—that a nondiscriminatory employer will have minorities and whites, or women and men, equally distributed throughout all levels of its work force. The inclusion of people in certain jobs is used to prove their exclusion from others. "Overrepresentation" in one part of the work force is used as evidence of unlawful "job segregation" or "assignment discrimination." This error has led to a prodigious amount of wasteful and improvident enforcement activity; a considerable amount of thoughtless commentary on important questions of public policy; a number of court decisions that found discrimination where it did not (or at least was not proven to) exist, or failed to find discrimination that did exist; and, most unfortunately, the increased likelihood that employers will discriminatorily deny jobs to the truly disadvantaged.

## Sex segregation and the phone company

Three factors invalidate most claims of job segregation at the individual firm level. First, for most employers minorities and women comprise a larger proportion of the applicants who are qualified for poorer jobs but not for better ones. Second, even when this is not the case, minorities and women tend to accept less desirable jobs than whites and men, because (among other reasons) they have fewer options in an economy that includes many employ-

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ers who do discriminate against them; thus we observe the tendency (somewhat less prevalent today than in the recent, more discriminatory past) of large numbers of college-educated women to accept clerical positions, while few college-educated men do. Third, whether an individual employer discriminates with regard to its better jobs will not appreciably affect the greater readiness of minority and female applicants to accept its poorer jobs, if offered.

The relevant principles are usefully illustrated by the employment data set out in Table I, which, simplified and liberally rounded, reflect the actual employment patterns of the Bell System operating companies at a time when it was portentously stated that at AT&T, "sex segregation was even more extensive than that observed in society at large." For simplicity, the positions are categorized as "better jobs" and "poorer jobs," the latter being those in which most of the workers were women. These jobs are lower-paying, less desirable, and offer little opportunity for advancement.

**Table I. Male and Female Employment at AT&T, 1972 (in thousands)**

| | *Total* | *Men* | *Percentage of all Male Employees who are in Job* | *Women* | *Percentage of all Female Employees who are in Job* | *Percentage of Persons in Job who are Women* |
|---|---|---|---|---|---|---|
| Better Jobs | 410 | 360 | 95 | 50 | 12 | 12 |
| Poorer Jobs | 390 | 20 | 5 | 370 | 88 | 95 |
| Total ..... | 800 | 380 | 100 | 420 | 100 | 53 |

An employment pattern like this seems to point to pervasive job segregation, in view of the evident differences in the way men and women are distributed among the better and poorer jobs: 88 percent of the women, compared with 5 percent of the men, are in the poorer jobs; men are almost eight times as likely (95 percent vs. 12 percent) to be in the better jobs; while women comprise 53 percent of the total work force, they hold 95 percent of the poorer jobs and only 12 percent of the better jobs; and the segregation index (the proportion of persons of one sex who would have to change jobs to match the other's distribution) is .83.

But this is not meaningful evidence of discrimination. The high female representation in the clerical and operator positions that comprise the poorer jobs offers no evidence one way or the other as to whether women were discriminatorily excluded from the better jobs. To say that AT&T was more segregated than society at large is

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to say no more than that AT&T was a telephone company. As such, it was going to have a great many jobs, particularly operator jobs, that were going to be overwhelmingly female, regardless of whether it discriminated against female applicants for its better jobs.

It is conceivable that AT&T hired some women for poorer jobs whose applications for better ones had been discriminatorily rejected. As of 1972, AT&T had almost totally excluded women from the entry-level position of Installation Repair Technician; some women discriminatorily denied hire for such jobs may have accepted positions as operators.

But the only way to prove that discrimination exists in the better jobs is to examine the sexual composition of the labor force qualified for them and the sexual composition of those hired.

## Misleading internal comparisons

Analyses that focus on "job segregation"—the concentration of women or minorities in some types of jobs—are commonly used to prove discrimination. But they cannot validly do so. Consider two hypothetical employers (see Table II) who draw employees for identical jobs from the same labor market, in which the overall minority representation is 20 percent.

Table II. Comparison of Hypothetical Employers

**Employer One**

| | *Total* | *Whites* | *Percentage of all White Employees who are in Job* | *Minorities* | *Percentage of all Minority Employees who are in Job* | *Percentage of Persons in Job who are Minorities* |
|---|---|---|---|---|---|---|
| Better Jobs | 100 | 90 | 56 | 10 | 25 | 10 |
| Poorer Jobs | 100 | 70 | 44 | 30 | 75 | 30 |
| Total . . . . . | 200 | 160 | 100 | 40 | 100 | 20 |

**Employer Two**

| | *Total* | *Whites* | *Percentage of all White Employees who are in Job* | *Minorities* | *Percentage of all Minority Employees who are in Job* | *Percentage of Persons in Job who are Minorities* |
|---|---|---|---|---|---|---|
| Better Jobs | 100 | 92 | 52 | 8 | 33 | 8 |
| Poorer Jobs | 100 | 84 | 48 | 16 | 67 | 16 |
| Total . . . . . | 200 | 176 | 100 | 24 | 100 | 12 |

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Employer One is more "segregated" by race than Employer Two. Employer One's white employees are 2.24 times (56 percent vs. 25 percent) as likely as its minority employees to be employed in the better jobs, while Employer Two's white employees are only about 1.58 times (52 percent vs. 33 percent) as likely as its minority employees to be employed in the better jobs. Employer One's segregation index is .31, while Employer Two's is only .19. Yet Employer One clearly treats minorities more favorably than Employer Two, and does so with respect to both the better and poorer jobs.

This is a simple example of the manner in which internal comparisons can mislead. But consider a slightly more complex case, in which, even taking qualifications into account, an examination solely of persons hired could lead to a finding of "job segregation" or "assignment discrimination," when in fact the employer's behavior was absolutely nondiscriminatory. Analyses like this one, though often more sophisticated, are commonly used in employment-discrimination suits.

Assume that the employer hires for two jobs that are sufficiently similar that the same type of prior experience is applicable to both, and that in filling either job the employer will prefer an experienced applicant but will otherwise hire the most qualified inexperienced applicant. Assume also that one job is clearly better than the other, and that, as a result of the reduced male interest in the poorer job, women will comprise a larger proportion of applicants willing to accept the poorer job than of applicants desiring the better job. Assume finally that male and female applicants desiring the better job are equally likely to have prior experience, and that male and female employees willing to accept the poorer job are also equally likely to have prior experience. The hiring pattern of a fair employer might look something like that set out in Table III.

Although the data indicate that this employer treats women fairly in every respect, an analysis of initial assignment patterns that looked only at persons hired (Columns 4 and 5) would reveal substantial disparities adverse to women, even taking qualifications into account. It would show, for example, that only 44 percent (fourteen of thirty-two) of the experienced women were assigned to the better jobs, compared with almost twice that proportion, or 82 percent (fifty-six of sixty-eight), of the experienced men. Similarly, only 13 percent (six of forty-eight) of the inexperienced women were assigned to the better jobs, compared with 46 percent (twenty-four of fifty-two) of the inexperienced men. These disparities could be shown to be highly significant statistically, giving the analysis an air

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**Table III. Hiring Pattern of a Fair Employer**

| *For Better Job* | *(1)* *Number of Hires* | *(2)* *Percentage of Applicants who are Women* | *(3)* *Percentage of Hires who are Women* | *(4)* *Number of Female Hires* | *(5)* *Number of Male Hires* |
|---|---|---|---|---|---|
| With Experience | 70 | 20 | 20 | 14 | 56 |
| Without Experience | 30 | 20 | 20 | 6 | 24 |
| Total ..... | 100 | 20 | 20 | 20 | 80 |

| *For Worse Job* | *Number of Hires* | *Percentage of Applicants who are Women* | *Percentage of Hires who are Women* | *Number of Female Hires* | *Number of Male Hires* |
|---|---|---|---|---|---|
| With Experience | 30 | 60 | 60 | 18 | 12 |
| Without Experience | 70 | 60 | 60 | 42 | 28 |
| Total ..... | 100 | 60 | 60 | 60 | 40 |

of scientific exactitude. But like the simpler comparisons based on Tables I and II, without consideration of the applicant information (Column 2) these comparisons prove nothing.

Analyses that look only at persons hired mislead not only by suggesting that discrimination exists where it does not. Such analyses can also suggest that affirmative action exists where the employer may in fact be discriminating. Consider the employer in Table IV. It also hires experienced applicants if it can find them, and inexperienced applicants if it cannot. Women comprise a larger proportion of this employer's inexperienced applicants than its experienced applicants. (That a group is on average less qualified frequently explains why an employer will discriminate against it; the employer will deem reliance on the average characteristics of the group less expensive than developing selection procedures that can accurately identify the best candidate for each opening. This is termed "statistical discrimination.")

Table IV's employer hires men at a higher rate than women, both from the applicants with experience and from those without it. The employer, however, focusing only on the characteristics of the people who have been hired, will point to the fact that its male hires were actually more qualified than its female hires: 73 percent (fifty-six of seventy-seven) of the male hires have prior experience, compared with 61 percent (fourteen of twenty-three) of the female hires. The employer will thus present itself as an affirmative-action employer, who favors female applicants over males.

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Table IV. Hiring Pattern of a Discriminatory Employer that Presents Itself as an Affirmative-Action Employer

| | *Number of Hires* | *Percentage of Applicants who are Women* | *Percentage of Hires who are Women* | *Number of Female Hires* | *Number of Male Hires* |
|---|---|---|---|---|---|
| With Experience | 70 | 40 | 20 | 14 | 56 |
| Without Experience | 30 | 60 | 30 | 9 | 21 |
| Total ..... | 100 | | | 23 | 77 |

In none of the above cases, however, can one actually determine whether the employer has discriminated—or, by contrast, engaged in affirmative action—without examining the characteristics of the applicant pool, including those members of the pool who were not hired at all.

## The allure of job-segregation theories

There are a number of reasons why the focus on perceived patterns of job segregation has proved so alluring to individuals and organizations concerned with the enforcement of employment-discrimination laws. For one thing, job segregation can be found in the work force of virtually every employer in the nation that hires significant numbers of whites and minorities or men and women. And it can be perceived and described by means of the simplistic comparisons discussed earlier with respect to AT&T, rather than through the complicated inquiries that necessarily flow from the recognition that significantly different jobs have significantly different labor markets.

Moreover, individuals who are hired by an employer are far more likely to complain of discrimination than individuals who are not hired; the latter rarely have significant information about the circumstances surrounding their rejections. Consider the following scenario: a black or woman hired for a poorer job is later denied a promotion to a better job and files an Equal Employment Opportunity Commission (EEOC) charge. In the EEOC's investigation of the charge, the possibly discriminatory denial of the promotion may too easily be seen as part of a pattern of job segregation, presumably effectuated by discrimination both in promotion and in initial assignment practices. When a suit is later filed, alleging that discrimination in promotion and discrimination at the time of hire both exist, it is beneficial to characterize the latter claim as one of discrimination in initial assignment. Among other things, char-

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acterizing the claim in this way avoids the technical (though significant) problem of whether a person who is actually hired can be an appropriate representative of persons not hired. It also yields an easily identified pool of putative victims of the alleged discrimination, whose members can both provide anecdotal testimony and benefit from the suit should it prove successful. And when the initial exclusion from the better jobs is cast in terms of assignment discrimination, there is usually extensive and readily available information on each person, frequently in computerized form, since everyone who is being compared has actually been hired. Even when the information on the paper application must be coded and analyzed, relatively few applications need be considered, since only the applications of persons hired are deemed relevant. By contrast, the information on rejected applicants that is often necessary to establish hiring discrimination is frequently destroyed; there may also be hundreds of applicants for each position filled, rendering an analysis of even a sample of applicants not hired prohibitively expensive. In such circumstances, assignment-discrimination claims will have an appeal even to those who understand the error of analyses that look only at persons who are hired.

In significant part, however, the focus is on assignment discrimination because practically no one knows any better. A decade ago two federal-court opinions seemed to grasp at least certain aspects of the issue. In 1977 a district court in Delaware summarily rejected claims that blacks were discriminatorily assigned to low-paying jobs in *EEOC* v. *du Pont*, succinctly observing: "The more reasonable inference would be that substantially more blacks than whites were willing to take the [lower-level] jobs." The following year a district court in California dismissed claims that Hispanics were discriminatorily assigned to railroad-laborer positions in *Edmonds* v. *Southern Pacific*, stating: "Plaintiffs imply that Southern Pacific must deny Hispanic applicants jobs they seek and qualify for because it has 'too many' of them. Such is not the law."

It is not clear whether the judges in these cases, in addition to recognizing a lack of common sense in the plaintiffs' claims, fully appreciated the fundamental mathematical error of analyses that rely solely on information about persons hired. In any event, these cases attracted little attention, and internal labor-force comparisons continue to play a prominent role in the analysis of employment statistics in many quarters. The leading comprehensive treatise on employment discrimination, Schlei & Grossman's *Employment Discrimination Law*, advises that the appropriate way to analyze claims of

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assignment discrimination is through "a comparison between the representation of the protected group among new hires who are qualified to perform the better job, and the representation of the protected group among persons awarded such jobs." Thus the recommended analysis, like the analysis of the data in Columns 4 and 5 of Table III discussed earlier, entirely disregards information on the applicants. And while a number of court decisions have actually accepted rudimentary assignment analyses without even considering differences in qualifications or interests among the male and female or white and minority hires, even recent decisions that have rejected such claims have done so without understanding that initial-assignment analyses that look only at persons hired prove nothing. Thus, the main consequence of the increasing emphasis on qualifications and interest is a manifold increase in the expense of litigating assignment claims, as experts carry out increasingly elaborate analyses of all available data on the wrong people.

The Supreme Court itself has dealt with relatively few statistical cases. One of its most noteworthy rulings was in 1977, in *Teamsters* v. *United States*, a landmark decision on the use of statistics in employment-discrimination suits. In *Teamsters* the Court upheld rulings that minorities had been discriminatorily excluded from long-haul truck-driving positions. In light of the virtually complete absence of minorities from such positions, there is little doubt that the result was correct. In analyzing the statistical evidence, however, the Court paid most attention to the fact that minorities were disproportionately relegated to city-driver jobs. Such evidence is not relevant to the issue of exclusion from the road-driver jobs; furthermore, it would be quite surprising if an employer that completely excluded minorities from its road-driver jobs did not also discriminatorily exclude them from its city-driver jobs—an issue never considered in that protracted litigation.[1]

In 1979 a panel of attorneys, labor economists, and statisticians (who were among the leading practitioners in employment-discrimination litigation) established guidelines for the use of statistics by the Office of Federal Contract Compliance Programs (OFCCP). On the matter of "assignment discrimination," the guidelines advised that total hires should be considered the relevant pool in determining whether members of different groups who were hired were

[1] In *Ward's Cove Packing Company* v. *Antonio*, the Supreme Court has recently agreed to consider the issue of whether a pattern of discrimination can be proved by statistics showing minorities to be disproportionately concentrated in lower-level jobs.

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equally likely to be assigned to the better jobs. While the document was never formally adopted by the agency, its approach undoubtedly influences OFCCP's investigators and lawyers. In overseeing employment practices throughout the federal government, the EEOC has recently focused on average-grade disparities as a principal indicator of whether an agency treats minorities and women fairly. That average, however, is but another figure that is often more a reflection of the high minority/female representation in the lower-grade jobs—which is a good thing—than an indication of the exclusion of minorities and women from higher-grade jobs. Thus, each year the National Gallery of Art is rated last among federal agencies in relative pay grades for black and white employees, solely because it gives several hundred black residents of greater Washington jobs as security guards.

The scholarly commentary from the nonlegal community has shown no greater grasp of the critical principles than have the courts and the federal enforcement agencies. While most scholarly studies of job segregation have dealt with job segregation in the economy at large—a rather different matter, which is discussed briefly below—several recent works have attempted to apply the concept of segregation to the individual employer, evidently unaware of its inapplicability. Consequently, elaborate analyses have often been carried out to show that employers treat minorities or women unfairly in a variety of ways, most of which are traceable to putatively discriminatory initial assignments. Such analyses, however, rarely offer evidence that is genuinely relevant for determining whether women have been discriminatorily denied hire into the better jobs.

Newspapers abound with accounts of this or that local governmental employer's efforts to enhance the status of its minority or female employees. Frequently such accounts provide informative data. Almost invariably, though, the stories place so much emphasis on the continuing overconcentration of minorities or women in poorer jobs that it is difficult to distinguish employers who are making the greatest progress from those who are making the least.

## Harming the victims of discrimination

Does the misplaced focus on placement patterns within an employer's work force actually harm the groups that have historically been victims of discrimination? There is reason to believe it does —in a variety of ways. For one thing, suing innocent employers not only detracts from the perceived legitimacy of all enforcement activ-

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ity, but also reduces the resources available to attack employers that do discriminate. What, for example, could be more foolish than choosing to devote limited resources to suing Employer One rather than Employer Two (in Table II), because the former's work force is more segregated?

Moreover, good cases are often lost because the wrong data are examined in an attempt to prove that women and minorities are excluded from better jobs. And as with the government agency mentioned at the outset, I have seen a number of instances in which a far better case could have been made that minorities or women were discriminatorily excluded from the jobs in which they were supposedly overconcentrated than from the jobs from which they were supposedly excluded. In one case, for example, the strongest claim seemed to be that women were denied hire as railroad clerks —quite good jobs by most standards—although the focus of the case had been, and complex regression analyses had been employed to prove, that women were disproportionately assigned to such positions rather than to positions as brakemen.

It is also true that many employers—particularly the largest ones, and particularly government contractors—carefully consider how their employment practices are perceived. And when such employers are directly or indirectly advised that perceived patterns of job segregation make them likely targets for prosecution, they will usually find it easier to hire fewer minorities or women for the poorer jobs than to increase minority representation in the better ones. Employer One in Table II, for example, believing that it hires solely on the basis of qualifications, may reason that it can better afford to hire some less qualified whites for its poorer jobs (where differences in skills are less likely to affect overall productivity) than some less qualified minorities for its better ones. It may also find that, due to the greater turnover in the poorer jobs, it can more quickly achieve a less disparate distribution of its employees by replacing minorities with whites in its poorer jobs than by replacing whites with minorities in its better ones. At least one study of the effect of the Executive Order programs on federal contractors has uncovered a tendency to limit minority and female employment in lower-paying positions.[2]

There are also less obvious ways in which the emphasis on patterns of job segregation harms women and minorities. When the AT&T decree (1973-1978) was negotiated, the government, empha-

[2] James P. Smith and Finis Welch, "Affirmative Action and Labor Markets," *Journal of Labor Economics* 2 (1984), pp. 287-88.

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sizing parity in every job, bargained for "ultimate goals," whereby a minority group's representation in every job would ideally be based on the group's overall representation in the local civilian labor force. The decree's mechanism, however, was such that these undoubtedly unrealistic goals had little effect on the better jobs. On the other hand, the ultimate goals could tend to limit minority representation in many of the poorer (though frequently quite good) jobs. Minority representation in the labor pool relevant to these jobs was arguably higher than its representation in the overall civilian labor force.

The AT&T decree also attempted to increase male representation in certain traditionally female jobs. It is arguable that the attempt to increase minority and female representation in traditionally male jobs provides a plausible justification for individual instances of unfairness, in which minorities or women are favored over more qualified or more senior whites or men. But discriminating against female candidates for clerical positions is decidedly more difficult to defend. As it happens, the worst individual instance of unfairness resulting from the decree ever litigated involved discrimination of this sort. In *New Jersey Telephone Workers* v. *New Jersey Bell Telephone Company* (1977), the union unsuccessfully challenged the hiring of a man from outside the company to fill a clerical vacancy, rather than a woman with ten years' seniority. The man was hired so that the company could achieve its goal of increasing male representation in clerical positions.

One might argue that since the high minority/female representation in the labor pool for the poorer jobs results in part from discrimination against them throughout the economy, the nondiscriminatory employer benefits from the discrimination of other employers, whose discrimination increases the willingness of minorities and females to accept poorer jobs. Nevertheless, the nondiscriminatory employer satisfies all that the law can reasonably require of it when it treats all applicants equally. An employer might, of course, realize that female applicants who are qualified for its better jobs are more likely than men to be willing to accept its poorer ones. Hence, the employer might favor male applicants over equally qualified female applicants for its better jobs (when there are vacancies in both its better and poorer jobs), and then offer its poorer jobs to the female applicants, who would be even more qualified for these jobs. Such a situation warrants close scrutiny, since it is reasonable to expect that an employer is most likely to discriminate when it is advantageous to do so. (It is arguably even

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unlawful for an employer to offer its poorer job to both applicants first, eliminating those who accept it from consideration for the better one, since the effect of such a policy would be to disproportionately exclude women from consideration for the better jobs.) But if the employer treats men and women fairly in hiring for the better job, and if nondiscriminatory selection results in the hiring of a male applicant, it makes no sense either to deny the employer the right to offer the poorer job to a woman or to deny the woman the right to accept the position that she prefers to her other available options.

## Job segregation beyond the firm

I have argued that the racial/sexual composition of workers hired for poorer jobs is irrelevant in determining whether minorities or women are discriminated against in hiring for the better jobs. While I have focused on analyses at the individual-firm level, the same principles often apply at a broader level. The Senate Committee on Labor and Human Resources, for example, recently considered employment patterns in the computer and construction industries, noting that women in these industries were concentrated in clerical jobs. But there is a confluence of forces in society that causes women to comprise a certain proportion of clerical workers in each industry. And whether the industry actually discriminates against women with respect to its traditionally male jobs will have little impact on that proportion. Thus it is conceivable that women are discriminatorily excluded from traditionally male jobs in these industries, but the high female representation among clerical workers has no bearing on the matter.

What I have said about firms and industries does not, however, carry over to analyses of the employment practices of the nation at large. In a sense, the United States employs the entire labor force, and a group's high representation in the poorer jobs is distinctly affected by its exclusion from the better ones. So the reduction of barriers to minority and female entry into better jobs should decrease their representation in poorer ones, thereby lessening the work-force imbalances that result from discriminatory exclusion (rather than actual differences in interests or qualifications).

Yet even with respect to the national economy one can question the preoccupation with theories of job segregation, and the resultant emphasis on apparent overconcentrations of groups in certain types of jobs. If, for example, we could theoretically expect more men to seek secretarial positions, a decline in female representation among

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secretaries is only one of the potential consequences of increased opportunities for women in other areas—and by no means a certain one. We could also expect to see the wages for secretarial work increase because of the availability of more remunerative options to many women who would previously have been secretaries. This could have a variety of consequences. For one thing, the higher wage rate would help retain female interest, and also increase male interest—though perhaps not enough to cause large numbers of men to seek secretarial employment. The increase in the price of the work might also cause employers to reduce the number of their secretarial workers, while increasing the sophistication of the equipment their workers use. At the same time, the increasingly sophisticated equipment might itself reduce the need for secretarial services.

The female labor force, moreover, has been growing more rapidly than the male labor force. And as many women have moved from clerical positions to higher-paying jobs, many minority women have moved from even lower-paying jobs to clerical jobs. Thus, despite the attention it has received, the continuing high female representation in secretarial jobs (the female proportion of secretaries, stenographers, and typists increased from 96.9 percent in 1970 to 98.3 percent in 1980) is only marginally relevant to the issue of whether barriers to female opportunity are being eliminated. In fact, the greatest significance of continuing high female representation in clerical jobs may be to indicate that the male clerical preferences at AT&T were aberrational, and that, at least with respect to clerical positions, the emphasis on perceived overconcentrations of women has not generally caused employers discriminatorily to limit female opportunities.

More revealing is the fact that the proportion of all women workers employed in such jobs decreased from 13 percent to 11 percent. Here, too, however, the change is a function of many different forces, including the overall growth of jobs in other occupations. The statistic tells us less about the state of equal opportunity for women than we can learn from observing the increasing female representation in jobs from which women were previously excluded. It may be hard to understand how women can have greater opportunities for employment in jobs from which they were once excluded, since there have been only modest decreases in their perceived concentration in traditionally female positions. But between 1970 and 1980 the following changes took place: the female proportion of lawyers increased from 5 to 14 percent; female representation in management-related occupations (accounting, etc.) increased from

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22 to 38 percent; the female proportion of air-traffic controllers increased from 5 to 15 percent, and that of bus drivers from 28 to 46 percent. These figures, which greatly understate women's increasing representation among those newly hired in these occupations, tell us a great deal about how much equality of opportunity for women has increased. If smaller changes in other areas—for example, an increase from 1.3 to 2 percent for dry-wall installers—seem to be unsatisfactory, we can at least examine the lack of change and try to understand its causes. Focusing on the continuing high female representation among clerical workers and nurses, however, will not aid that effort.

Analyses of differences in average wages of various groups, it should be evident, are usually but another way of looking at job segregation. Comparisons of male and female wages aimed at determining how much of the differences are attributable to discrimination are occasionally interesting academic exercises (and are perhaps politically useful for proponents of comparable worth), but they shed little light on the increasing opportunities available to women today. In the case of blacks, on the other hand, analyses of diminishing wage disparities may actually be misleading, since the exodus of low-income blacks from the labor markets increases the average wage of employed blacks.

## The value of statistical evidence

Nothing I have written here should be read as a general indictment of the use of statistics to prove employment discrimination. The fact that there remain few of the glaring patterns of exclusion that were so common ten or twenty years ago naturally tends to diminish the role of statistical evidence. At the same time, however, other factors give it continuing importance. For many years now there have been few major employers that have discriminated overtly. Indeed, most large companies emphasize the trappings of fair employment, whether or not they ensure it in practice. Moreover, if the statistical discrimination discussed earlier is the predominant form of discrimination, as some believe, it most likely means that the employer will always select the candidate who is clearly most qualified if there is one, but will select a person from the favored group if it must choose among similarly qualified candidates. If this is in fact the case, courts will rarely be able to divine whether discriminatory motivation affected a particular decision. In such contexts, statistical evidence may be the only viable method of proof.

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Nor should anything I have said be read to support the claim that statistics can be manipulated to prove anything. While statistics are frequently misused and misunderstood, there is usually a correct way to apply them in a particular context. When they are properly applied they can often be of immense value. That the correct way is not always the obvious way is one more reason for attempting to master this important tool of law and social science. In the employment-discrimination context, a useful starting point is to dispense entirely with notions of assignment discrimination and job segregation at the firm level.

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# What Europe does for single-parent families

SHEILA B. KAMERMAN & ALFRED J. KAHN

FEMALE-HEADED, single-parent families have more than doubled in numbers and as a proportion of all families with children in the United States since 1970. They are a major component of the "feminization of poverty" and of child poverty, and they are at the heart of the welfare conundrum. These demographic trends are shared with West Europe, but the societal responses have been, for the most part, extremely different. As we struggle to develop our own policy responses, it will be instructive to see what European countries have done.

Mother-only families are increasing in numbers in all advanced Western industrialized countries, including Canada, Australia, and the nations of East and West Europe (Table I). Within the last few years, the Commission of the European Communities, the European Parliament, the International Labour Organization (ILO), and the Organization for Economic Cooperation and Development (OECD) have begun to explore the factors leading to the recent increase in their numbers, and to suggest appropriate responses.

Today's mother-only families are most often created as a consequence of divorce, separation, and out-of-wedlock childbirth, rather

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than through the death of a breadwinner. The economic problems of families headed by widows have been reduced by social-security policies; medical progress has also cut their numbers dramatically. On the other hand, the numbers of divorced, separated, and never-married mothers with minor children are increasing, as (in some countries) are the problems they present.

There are important contrasts between the United States and Europe. Divorced mothers are as large a group in Europe as in the U.S., but in Europe more couples opt to live together and have children without marrying. Unwed mothers are as prevalent in Europe as in America; unwed *teenage* parents, however, are far more common in the United States. Most experts agree that although teenagers are as sexually active in Europe as in the United States, American teenage girls are more likely to become pregnant, because they either are less informed about or have less access to contraception. Finally, although many of them receive social benefits, European single mothers are not thought to pose a major "welfare problem"; nor are they a target of extensive public concern.

## The increase in single-parent households

Although all the European countries report an increase in the number and proportion of families headed by one parent, the size and composition of the increases vary substantially (Tables I and II). International comparisons are difficult, because countries define and count single-parent families in different ways. Some report as single-parent families only those with children under age 18 or 16; others ignore age. Some even report those whose children have moved away. Moreover, while some count those legally married, those cohabiting but not legally married, and those not married and living alone as three separate categories, others combine them in different ways. But our generalizations take these complexities into account, and apply to most of northern and western Europe.

Even in Ireland, where divorce is prohibited and unwed motherhood stigmatized, the number of single-parent families has doubled over the past ten years. Widows are still the dominant group, but separated and never-married younger women are rapidly becoming more common. Between 1975 and 1981, single-parent families increased by 35 percent as a proportion of families with children under 15 (from 5.6 percent to 7.1 percent). The number of illegitimate births almost doubled between 1977 and 1985, and the proportion of unwed mothers keeping their babies almost doubled as well (from 40 percent in 1972 to 75 percent in 1982). Ireland's

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**Table I. Single-Parent Families with Children under Age 18,[a] Various Years (Expressed as Percentage of All Families with Children)[b]**

| *Country* | *Year* | *Total* | *Female-Headed* | *Male-Headed* |
|---|---|---|---|---|
| Austria | | | | |
| (Children under 15) | (1984) | 13 | 12 | 1 |
| Britain | | | | |
| (Children under 16)[c] | (1985) | 14 | 12 | 2 |
| Denmark[d] | (1984) | 26 | 23 | 3 |
| Finland | (1984) | 15 | 13 | 2 |
| France[d] | (1981) | 10 | 8 | 2 |
| Hungary | (1984) | 20 | 18 | 2 |
| Italy | (1981) | 6 | 5 | 1 |
| Norway | | | | |
| (Children under 16) | (1982) | 19 | 18 | 1 |
| Sweden[e] | (1985) | 32 | 29 | 3 |
| West Germany[d] | (1985) | 13 | 11 | 2 |
| United States | (1985) | 26 | 23 | 3 |
| | (1970) | 13 | 12 | 1 |

[a] Or other ages, as specified.

[b] *Sources*: Country census or microcensus reports, and reports to 1987 meeting of European Council of Ministers Responsible for Family Affairs.

[c] To age 19, if in school.

[d] Figures include unmarried cohabiting couples.

[e] To age 19, if in school. The rates include cohabiting (but not legally married) couples. For 1985, 18 percent of families with children were headed by women living alone and 14 percent by cohabiting couples.

**Table II. Marital Status of Women[a] Who Head Households (In percentages)[b]**

| *Country* | *Year* | *Widowed* | *Divorced* | *Separated* | *Unwed* |
|---|---|---|---|---|---|
| Austria | (1984) | 7 | 43 | 9 | 41 |
| Britain | (1985) | 8 | 42 | 25 | 25 |
| Finland | (1977) | 29 | 50 | 4 | 17 |
| France | (1982) | 31 | 39 | 15 | 15 |
| Italy | (1981) | 41 | 7 | 40 | 12 |
| Sweden | (1985) | 4 | 31 | 4 | 61 |
| West Germany | (1985) | 18 | 46 | 16 | 20 |
| United States | (1985) | 7 | 42 | 22 | 29 |
| | (1970) | 20 | 33 | 40 | 7 |

[a] We have not attempted to separate out cohabiting couples within the mother-only group because there are no consistent definitions and clarifications even within countries, let alone across countries.

[b] *Sources*: Country census or microcensus reports, and reports to 1987 meeting of European Council of Ministers Responsible for Family Affairs.

female labor-force participation rate, although rising, is still lower than those of other industrialized nations. Only about 38 percent of single mothers were estimated to be in the work force in 1980; most of their families, inevitably, are very poor.

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In Austria, Britain, France, and West Germany, between 10 and 20 percent of families with children are single-parent families. About 85 percent of these families are headed by women. Divorced women constitute the largest group among them, almost half of the total. The number of widows has declined, and unwed mothers have replaced widows as the second largest group among mothers heading families alone. About 20 percent of all mother-only families (twice as many in Austria) are now headed by never-married women. In the 1970s cohabitation increased primarily as a prelude to marriage, and couples would get married once children arrived. Nowadays, cohabitation is less likely to end in marriage, with or without children. Cohabitation is also becoming an acceptable alternative to remarriage in many places.

In the Scandinavian countries, an even more dramatic change in marital patterns is occurring. In Denmark, Norway, and Sweden, between 20 and 32 percent of families with children live with only one parent (the U.S. rate is about 26 percent); and almost 90 percent of these are headed by mothers. What makes the situation in Scandinavia unusual is that about half of these women have never been married. (The comparable figure for the United States is 29 percent.) In Scandinavia many of these unmarried mothers are living with the father of their child or with another man. (This is not the case in the U.S., where cohabiting couples constitute about 2 percent of all families with children and 7 percent of the non-husband/wife families with children.) In Denmark and Sweden, out-of-wedlock births now constitute more than 40 percent of all births. (In the U.S., the 1984 figure was 21 percent.)

Cohabitation has emerged in the Nordic countries as the accepted pattern for premarital relationships. Almost all Swedish couples who marry now have lived together previously. More importantly, cohabitation has become not just a preparation for marriage and an alternative to remarriage after divorce, but instead an alternative to marriage altogether. A growing number of young couples in Sweden are living together, having children, breaking up, and uniting again with another partner—all without ever having been legally married. In Scandinavia, the line between marriage and cohabitation is quietly being erased. Yet recent data reveal that marriage and cohabitation are not the same: the rate of breakups is higher and birthrates are lower for cohabiting couples than for those who are married. So it is possible that the growing trend of cohabitation as an alternative to marriage may lead to still higher rates of "true" single parenting—that is, mothers and minor children living alone.

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Unwed teenage mothers are common only in the U.S., but their numbers are growing in several other countries, including Canada, Australia, Britain, France, West Germany, and especially Hungary. The modest increase (by American standards) in such young, unwed parenting is "explained" everywhere with a local variation of the same rationale—young women make a "career" of motherhood because they lack alternatives, and cannot find suitable males to marry, especially during a period of high unemployment. (William Julius Wilson has attempted to explain black unwed parenthood in the United States in these terms.) A British scholar reports that within the last five years Britain has experienced a significant increase in unwed teenage mothers. In contrast to the situation in America, however, paternity is acknowledged and registered in most cases.

The general European demographic picture is also like the American one: it is characterized by delayed marriage, deferred childbearing, fewer children, the declining incidence of marriage and remarriage, increasing or high but level divorce rates, and increasing cohabitation. Beginning in the 1970s, divorce increased dramatically in all the countries that permit legal divorce. Illegitimate births have increased almost as dramatically, but for the most part only in the 1980s, and not with the large number of births to teenagers that characterizes the United States. Although divorce remains the single greatest factor in the rise of single-parent families in Europe and the U.S., unwed motherhood is a growing secondary factor; and as we have seen, it has become common in some of the Scandinavian countries and in Austria. Finally, the increase in nonmarital cohabitation even after children have arrived raises even more basic questions about the future of marriage.

## Different countries, different patterns

Surprisingly, there are few countries in Europe in which one-parent or mother-only families are high on the public-policy agenda or the subject of major attention. The following is a country-by-country profile of family life and government family policy.

*Britain*: In contrast to their significance in the growing debate about welfare reform in the U.S., for example, single mothers and their children have not been the focus of the recent income-maintenance policy reform in Britain. Poverty is not seen as a problem specific to single mothers, although their families are about three times as likely to be poor as husband/wife families. Under a relative definition of poverty (less than half a country's median income, adjusted for family size), 36.2 percent of the children in

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these families in Britain were poor in 1979-80, as compared with 8.1 percent in husband/wife families.[1] (In the U.S., using the same measure of poverty, 59.3 percent of children in mother-only families were poor that same year, as compared with 13.8 percent of those in two-parent families.)

The British "Income Support" program (the equivalent of our "welfare") is not designed specifically or even primarily for single mothers. Moreover, the dependent status of single mothers receiving social benefits (public income transfers) is not viewed as a problem in Britain today. Indeed, these mothers are expected to remain at home with their children and to be supported by the public if they are in financial need. Comparing labor-force participation rates of married and single mothers underscores this. While rates for married women remained relatively low but constant between 1976 and 1984, about half of the married women with children worked, the vast majority part-time. In contrast, the labor-force participation rate for single mothers (already lower than the rate for married mothers) was 47 percent in 1976, with half of the workers employed full-time. It dropped to 39 percent in 1984, with about the same proportion working full-time.

Single mothers are in serious economic straits in Britain, but they are a "protected" group; public financial assistance is readily available at the same level as for the aged and disabled. (They receive their support from a program like Supplemental Security Income—SSI—in the U.S.) Fifty percent of single parents, including 85 percent of those never married, received assistance in 1984. They constitute only 11 percent of all the recipients of means-tested financial aid, but more than half of the families with children receiving assistance.[2] (The remainder are long-term unemployed husband/wife families with children and, to a lesser extent, the aged.) Those who never married constitute one-third of the single

[1] Timothy Smeeding, Martin Rein, and Barbara Boyle Torrey, "The Economic Status of the Young and the Old in Eight Countries," in John L. Palmer, Timothy Smeeding, and Barbara Boyle Torrey, eds., *The Vulnerable: America's Young and Old in the Industrial World* (Washington, D.C.: The Urban Institute Press, 1988). This is the source for the poverty rates cited later for Germany, Norway and Sweden. France was not included in this study.

[2] In 1987, about half of female-headed single families received Aid to Families with Dependent Children (AFDC) in the U.S. AFDC, largely a program for single mothers and their children, was about half of the total "welfare" case load, which includes SSI and General Assistance. Therefore, single mothers are about four times as important in the U.S. welfare load as in the British load; this is a result of the inconsistent income criteria by which single mothers can qualify for AFDC in the U.S., as well as the unavailability of federal financial aid through an assistance program to most poor two-parent families and their children.

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mothers on assistance, and are the most rapidly growing component of them. Long-term use of public aid—lasting one or more years—by single mothers doubled between 1980 and 1986.

Single mothers may not be a special item on the policy agenda in Britain, but they are clearly a significant part of the British poverty and "welfare" problem; there is ongoing concern expressed in the media regarding the effects of family change, the growing rate of divorce, and the increase (modest by U.S. standards) in unwed parenting.

*France*: The number of marriages declined by more than 50 percent over the last ten years in France, which has one of the lowest marriage rates in Europe (5.1 per thousand people in 1984). Nonetheless the birth rate in France is significantly higher than in Denmark, Germany, or Italy; in this respect, France is more like Britain, Sweden, and the U.S. This paradox is accounted for by a growing rate of illegitimacy, which chiefly results from births to cohabiting but unmarried women.

Single-mother families fall into two groups in France: those headed by young mothers, most of them never married and poorly educated, who are usually 18 to 25 years of age, and those headed by divorced mothers, most of them past 40. There is some concern about these families in France. Leftist political parties view them as a very vulnerable group, at high risk of poverty. At twice the pretransfer[3] poverty rate of husband/wife families (but almost three times the post-transfer rate—14 percent as contrasted with 5 percent), the poverty rate of single-mother families seems worrisome; but it is not nearly so high in relation to husband/wife families as in the U.S. or Britain. More than three-quarters of all single mothers are in the labor force in France—a little more than in the U.S., over 50 percent more than in Britain, and double the French rate of twenty years ago.

Referring to the family-allowance program that we discuss below, a French government official insisted that single mothers in France may be viewed by some as a social problem, but "never as a poverty problem. . . . In France, when you have children, you have solved the poverty problem. The French poverty problem is a problem of childless adults." There are, however, those who view the decline in marriage as a threat to established values, as there are those who are concerned about the consequences for children of living without

[3] Transfer programs are the various forms of public income support. Pretransfer poverty is the rate which excludes that support.

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a father. But neither poverty nor social benefits for single parents is a major issue on the public agenda.

*Germany*: Single mothers are viewed as both a poverty problem and a social problem in Germany. The middle-class, single, working mother may be regarded as heading a "normal" family, but the lower-class, non-working mother receiving social assistance —whether she is divorced or unwed—is stigmatized.

Single-parent families in Germany have increased by two-thirds since 1970; the growth is largely attributable to divorce, and to a lesser extent to unwed parenting and cohabitation. Almost half of German single mothers are divorced. One in three marriages ends in divorce, about double the rate in 1970. About 20 percent of single mothers have never wed, up one-third just between 1982 and 1985; German officials believe that the increase is a by-product of the dramatic growth in cohabitation, rather than of unwed, single parenting. Cohabitation emerged as a popular practice in the 1970s, and is still thought of as a pattern that characterizes the years before couples marry and have children. Most cohabiting couples in Germany marry once they decide to have children. Nonetheless, a change has occurred in the 1980s; some of these couples now appear to be postponing marriage longer, but they are still going ahead and having children.

Single mothers in Germany must work if their families are to have adequate incomes, and most work full time. Child benefits supplement low wages, but only moderately. Only 30 percent of single parents receive social assistance; they constitute about 16 percent of the recipients. Because of strong relative-responsibility laws, few single parents qualify or apply. Some, especially the younger single parents, live with their own parents. Some who had a prior history of labor-force participation may be eligible for unemployment assistance, a less stigmatized and higher-level benefit. Short school days and few part-time jobs make work a problem for many; and German attitudes toward parenting include ambivalence about working mothers. The left and the right converge in their views of women's roles: women with children under age 6 (some believe under age 10) should be at home; women with school-age children can be expected to work, but only part-time. Nonetheless, the poverty rate for children in single-parent families in Germany (30.6 percent) is lower than in Britain (36.2 percent), and does not begin to approach that in the U.S. (59.3 percent).

*Norway*: Mother-only families are equally divided between divorced and never-married women in Norway. The major dif-

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ference in the 1980s has been the continual rise in the numbers and percentages of never-married mothers. Teenage mothers are not a part of this phenomenon; there are very few in Norway.

Cohabitation has increased substantially in Norway, changing from a practice of childless couples in the 1970s to one continued in the 1980s even after children arrive. Although Norwegian demographic statistics classify cohabitating individuals separately from married and single ones, some confusion exists because individuals list themselves inconsistently for tax and social-benefit purposes.

Single-mother families are twice as likely to have low incomes as husband/wife families, but they are not thought to pose a significant poverty problem. Using the same poverty measure employed earlier, we note that only 8.6 percent of children in all single-parent families are below the poverty threshold, as compared with 3 percent of children in husband/wife families. The rates are similar to Sweden's and dramatically lower than the poverty rate for children in husband/wife families in the U.S. Nor are these families generally viewed as a social problem in Norway. Mother-only families are viewed simply as a reflection of social change; the issue is how to respond to their needs.

Norway's Transitional Benefit Program is the most generous targeted benefit for single mothers in Europe. About 70 percent of all single mothers with children under age 10 receive this indexed, tax-free benefit, which is worth about two-thirds of the wages of the average female worker, and is the primary source of income for mother-only families. Unwed mothers constitute a little more than half of the recipients, and divorcees a little less. This benefit eliminates the need for most low-income single parents to claim other forms of social assistance.

About 20 percent of Norway's social-assistance recipients were single mothers in 1982, and about 16 percent of their families received assistance, largely those with children over age 10. Most of these women are looking for work, or working part-time but earning low wages. Even when received, social assistance is usually a short-term "extra" to meet special needs.

The protected position of Norwegian single mothers is evident in a comparison of the labor-force participation rates of married and single mothers. Married mothers have increased their labor-force participation rate since the early 1970s, when it was 44 percent, to 62 percent in 1984. In contrast, the rates for single mothers declined from 78 percent for unwed mothers in 1960 to 60 percent in 1984,

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and from 70 percent for divorced mothers to 48 percent, the lowest rate for divorced single mothers of all European countries.

Single mothers may feel financially pressed in Norway, but they are not poor. Their complaint, a legitimate one according to Norwegian time-use data, is a time crunch. They have nowhere near the personal leisure time of married mothers. The topic of "time poverty" is rarely discussed elsewhere.

*Sweden*: At the cutting edge of demographic and social change, Sweden has the highest rates in Europe for one-parent families, for mother-only families, and for cohabitation. It has the lowest marriage rate in the industrialized West, but its fertility rates are similar to those of the U.S., Britain, and France. At 45 percent, Sweden's illegitimacy rate is now the highest in the industrialized world. Even more striking is the fact that about 60 percent of all first births are to unwed women; still, paternity is known and acknowledged in all but 3 percent of the cases. Few women are actually living alone when they bear their first child.

Swedish single mothers are not poor. We found in our 1983 study, *Income Transfers for Families with Children*, that even if a single mother with two children was not working (a rarity in Sweden), transfer payments would assure family income nearly equal to a full average manufacturing wage after taxes; but single mothers are expected to work, which results in their having still higher incomes. Employing the same definition of poverty used in assessing the situation of the British, Norwegian, and German families, and using the same data source, we find that only 8.3 percent of children in single-parent families in Sweden are poor, compared with 4.4 percent in two-parent families. Child-poverty rates in mother-only families in Sweden are lower than in any of the other countries discussed here except Norway, and closer to the rates for children in husband/wife families.

Swedish women may not earn very much more than American women when compared with their male counterparts, but female labor-force participation rates are much higher, and social benefits far more extensive, generous, and available. Labor-force participation rates of single and married mothers are very similar (85 percent and 83 percent, respectively) but single mothers are far more likely to work full-time. (More than half the married mothers work part-time.) As in Norway, single mothers feel themselves to be "time poor."

Despite the absence of poverty, there is some concern in the Swedish government about the economic situation of mother-only

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families. Single mothers constituted a larger percentage of social-assistance recipients in 1986 (16 percent) than in 1980 (13 percent), and a higher percentage of single mothers received assistance in 1986 (25 percent) than in 1980 (20 percent). Moreover, most of this increase is among single mothers with children under age 7. Although most of this assistance is transitional and short-term (and even though these figures seem astonishingly low by American standards), the Swedes find them high; they are troubled by their growth rate, and concerned about the implications for labor-market and wage policies. Between 1976 and 1983, real average wages decreased, as they did in the U.S. Family income was maintained in the 1980s because married women increased the number of hours they worked. (In the U.S. more women went to work.) Single mothers were already likely to be working full-time, and therefore had little capacity to increase their hours; the result has been lower real income in some cases.

In general, single mothers are best off when they have worked before having children. Since there are extensive and generous social benefits linked to parenting that are contingent on prior employment, most women have their children late in order to work long enough to qualify for these benefits. A small group of single mothers does not follow this pattern; these are young, poorly educated, poorly skilled girls who become unwed mothers, but they are a very small part of the total. The vast majority of single mothers in Sweden are believed to be doing well. Unlike the U.S., Sweden has no group on long-term public assistance. For the most part single mothers are working, earning good wages, and not notably worse off than Sweden's declining number of legally married mothers.

Thus, despite the dramatic increase in the number of divorced and never-married mothers (and the concern in some quarters as to what it means), mother-only families in many of these countries are not thought to constitute the major problem that they do in the U.S. In some countries, their poverty is a real or potential issue, but social policy often provides them with a protected status and subsidized income. While single mothers in Europe are likely to have relatively low incomes, they are not truly poor. Earnings and/or income supports protect them and their children.

## European policy strategies

There is no uniform European policy response to the developments we describe. Some countries have addressed the single-parent

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question directly, while others have considered it only as part of a larger poverty problem. Although these policies may not be fully realized, we have identified a continuum of European policy strategies. For the purpose of our discussion, we describe what exists under the rubric of four alternative models.[4]

1. *An anti-poverty strategy.* Here the policy response is to attempt to meet the general needs of the poor, and thus help the family headed by a single mother as well. Britain is the best illustration of this model. A single mother in Britain today may remain at home and receive a means-tested assistance grant until her child or children are 16 years of age. Although half of all single parents are assisted by Income Support, the program is unlike America's AFDC, because most recipients are two-parent families, the long-term unemployed, or the elderly. There is no pressure on single mothers to take on training or a job. The tax and welfare systems operate so as to create a disincentive for part-time work; but full-time jobs are hard to come by, and mothers of very young children require child care that is largely unavailable or unaffordable. Single mothers who work at least twenty-four hours a week at low wages are eligible for a wage supplement. Nevertheless, most single mothers stay at home with their children. Mother-only families are also helped by child allowances, the national health service, and priority access to public housing.

Despite this assistance, the situation of these families has become worse, not better, in recent years, as the research of Jane Millar shows. In 1979 the average gross income of a one-parent family was about 51 percent of that of a couple with two children. By 1984 the figure was down to 39.5 percent. The value of the child allowance has not kept up with inflation, while the income of two-parent families has increased. The proportion of single mothers who are supported by public aid has increased substantially, from about 38 percent in 1979 to more than half in 1985.

2. *A categorical strategy for single mothers.* Here the policy is one of providing special financial aid to single mothers, supporting them so that they can remain at home with their children. (This was once the mission of AFDC in the United States.)

Norway is a country that pays special attention to mother-only families. It is the most generous country in supporting these families, and it clearly expects most single mothers to stay home until

[4] For details, see our "Mother Only Families in Western Europe," a report to the German Marshall Fund of the United States (New York: Columbia University School of Social Work, November 1987), and our earlier *Child Care, Family Benefits, and Working Parents* (New York: Columbia University Press, 1981).

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their children are ten years old. The Transitional Benefit, a special income-tested cash benefit, is available to a woman in a cohabiting relationship as well, as long as the couple does not have a child together. The benefit has a tapered phase-out: 60 percent of earnings may be kept until wages equal three times the grant. It supplements the child allowance (provided for all children), the guaranteed minimum child-support benefit (provided if the non-custodial spouse does not pay), a housing allowance, medical care, and various tax considerations. The special financial assistance provided to single-mother families is sufficient to eliminate poverty for these families but not enough to maintain them at the level of husband/wife families. Nonetheless, one result is that single mothers have far lower labor-force participation rates than married mothers; they find it hard to enter the labor force when their children reach age 10 and the Transitional Benefit ends.

3. *A universal young-child strategy.* Here the policy is to provide cash benefits for all families with children, in particular those with children under age 3, so that a parent may choose to remain at home during the child's first years. Single mothers may have special add-ons, but they are mostly aided by the overall active family policy.

French family policy is designed to benefit all families with children. Its main instruments are an elaborate system of both universal and income-tested (but non-stigmatized) family allowances, including a basic family allowance, family-allowance supplements, housing allowances, maternity and paternity leaves, and special allowances for mothers of very young children. The formal objectives of French family policy—as enunciated in the ninth national plan (1985)—are to equalize the economic burdens of those with children and those without, to assure a minimum standard of living to families with children, to aid in the care and rearing of very young children, to make child-rearing compatible with employment for parents, and to encourage families to have a third child.

Helping the parents of children under age 3 is a central component of French family policy, since these are the years when it is particularly difficult for mothers to work, and the additional financial aid allows the parents either to pay for child care or to exercise the option of remaining home for some time after childbirth. Obviously, this can be especially helpful to the single mother—but it is regarded as transitional help.

French policy offers all mothers of children under age 3 a choice of whether to work or remain at home; it provides a transitional

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benefit conferring modest support for one year to poor single mothers with children over three. Once children reach age 3, parents, including single mothers, are expected to work if they are in financial need. While family and housing allowances provide a continuing and valued foundation, the special allowances for the very young end, and earnings become critical for mothers with older children. At 78 percent, labor-force participation rates of single mothers are very high in France, far higher than those of married mothers.

4. *Combining labor-market and family policy to permit a successful combination of parenting and work.* Here the policy is to provide a variety of cash benefits and policy supports for families with children. Young mothers are encouraged to enter and remain in the work force, earning income to support their families, instead of being supported at a low standard, at home, by public income-transfer payments. These family-policy measures buttress labor-market measures in Sweden to create a supportive nexus.

In contrast to Britain and France, Sweden has implemented social policies that stress the importance of full employment and the role of labor-market programs; and unlike Britain or the U.S., its policies seek to reduce inequality more than poverty. Like Norway, Sweden provides a special benefit for single parents; however, in Sweden this benefit is designed only to help maintain the children, and not to support the mother and full family at home. Finally, like France, Sweden provides assistance to all families with children, in particular those with very young children; but much of what is done is designed to support parents in their efforts to balance work and family life. In effect, what Sweden seems to have done is to create a generous family policy, and to support it with parallel labor-market efforts.

Wages are viewed as the fundamental source of family income in Sweden. Women, like men, are expected to work, even if they are parents. There is an active labor-market policy: government invests heavily in job creation, if necessary, and in training, retraining, education, and relocation. Transfer payments —social benefits— are at best either transitional (and very short-term) or supplementary if and when earnings are low. Work—the prevailing pattern for both married and single mothers—and parenting are supported by a generous social infrastructure that includes health care, child-care services, and a variety of benefits designed to ease the tension between work and family life. Single parents participate in a basic family-benefit system for all, which includes child allowances and

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housing allowances. All working parents are guaranteed a one-year, paid parental leave following child-birth. There are generous provisions for a parent to stay home with a sick child, to visit school, and to reduce daily work hours when a child is young. In addition, single parents collect either child support from the non-custodial parent or a minimum, but generous, support benefit from the government.

## Learning from the Europeans

One big difference between the U.S. and Europe is that European countries have moved rapidly over the last decade (if not earlier) to develop new social policies in response to the increase in divorce. All the Nordic countries (Norway, Sweden, Denmark, Finland, and Iceland) have established some form of guaranteed child-support payment, paid for by the government when non-custodial parents fail to pay or pay inadequately. A government agency assumes responsibility for collection from the non-custodial parent. These benefits are available to all custodial parents, regardless of income. Where they exist, they add significantly to income from earnings. More importantly, receipt of adequate child support, provided by the guaranteed minimum, protects women and children from needing to claim a stigmatized social-assistance benefit, while also providing incentives to work.[5]

Other countries are also moving in this direction. In effect, divorce is being redefined in Europe as a social rather than an individual risk, which has negative economic consequences for women and children and warrants protection through the public income-maintenance system. This has not occurred in the U.S., but is being discussed; one experiment in Wisconsin guarantees child support —if not from the absent husband, then from the state.

In most countries, single mothers are already expected to work; it is an emerging expectation even in those countries in which single mothers are still supported at home. However, if mothers are to work, an adequate social infrastructure must exist. It is here that European countries are far ahead of the U.S., in providing basic social services like health insurance, child-care services, maternity and parenting benefits and leaves, and housing subsidies.

[5] See our *Child Support: From Debt Collection to Social Policy* (Beverly Hills, CA: Sage Publishers, 1988), and Irwin Garfinkel, "Child Support and Public Policy," paper prepared for the OECD meeting "Lone Parents: The Economic Challenge of Changing Family Structures," December 1987.

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Scandinavian and British women are likely to work part-time, but in most countries single mothers are more likely to work full-time. Part-time work is not remunerative enough when income-tested social benefits are lost as a consequence. But for many, especially when their children are young, full-time work is not feasible, because of time and child-care problems. No country has yet resolved the problem posed by the need for a full-time wage coupled with the inability to cope with the time pressures of a full-time job. Currently the extent to which work is expected of single mothers is in part a function of unemployment rates. In general, Britain is still supporting single mothers at home, while Sweden, Finland, Denmark, Germany, and France expect them to work.

One major new development suggests convergence among policies designed to enhance family well-being, to make it possible for mothers to work, and to help low-income mothers. This is the policy of giving special support to parents with children under age 3. This support is designed to promote numerous policy goals: to improve the labor market (by lessening the pressure on it when unemployment rates are high), to increase the population (by making it easier for women to have more children), to reduce public expenditures (by providing less government-financed child care), and to further equality between the sexes (by making it easier for women to work while still being able to bear and rear children). These policies involve extending paid and job-protected maternity/parenting leaves with supplementary leaves and cash benefits, the latter usually at a lower level than the immediate post-childbirth benefit. In some countries (Sweden, Finland, Austria), these benefits are contingent on prior work, and therefore create both strong incentives for early labor-market participation and strong disincentives to adolescent parenting. By assuring job protection, the policies facilitate a return to work for women who might otherwise find it difficult to get jobs. In some countries, such as Germany, prior work is not a criterion for eligibility. Where this is the case, it could be difficult for women to find employment when they enter the labor market.

Americans rightly worry about the unanticipated consequences of policies. But European data, reports, and analyses consistently arrive at this reassuring conclusion: women do not have babies in order to qualify for social benefits, and couples do not break up to get benefits. Social policies do not cause these developments. But once an unwed mother has a baby, and once a couple divorces, the existence of social benefits makes the single-parent family possible in various ways, depending on the policy.

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In both the U.S. and Europe, single-parent families with children face economic difficulties, because families cannot manage financially with only one wage-earner. The difference between the U.S. and Europe, however, is that the European countries have understood this and have addressed the problem; the U.S. has not. As a consequence, the European countries provide extensive child-related income supplements for all families with children (child allowances, tax credits, child-allowance supplements, etc.), while the U.S. does not. The European countries have a far more extensive social infrastructure for children and families than does the U.S. (consisting of things like health-care coverage and public preschools). The European countries provide income-tested benefits (rather than stigmatized, means-tested aid) that are likely to help single-parent families (especially with supplementary cash and housing support), while the U.S. does not. The European countries increasingly provide guaranteed minimum child-support (in part by collecting from the absent parent); the U.S. still lacks such a policy, despite active discussion and the Wisconsin experiment. In addition, the Europeans have gone much further in making work viable for parents (by providing maternity and parental leaves, flexible work time, leave to take care of a sick child, etc.). The result is that most single-parent families are better off economically in Europe than in the U.S.

In effect, the European countries that expect single mothers to work, and their families to do well, have invested in and implemented policies designed to achieve this goal. The U.S., despite its professed concern about work for "welfare mothers," has not yet adopted the measures necessary to show full concern for family well-being.

Ultimately, the major question for America may be deciding whether to protect the economic and social situation of children (even if it means facilitating alternatives to the traditional family that are the objects of disapproval), or to impose punitive policies so as to constrain or shape the behavior of adults (even if it means harming children).

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# Teenage pregnancy and the underclass

MARIS A. VINOVSKIS

OCCASIONALLY, a scholar writes a book that greatly affects our understanding of the world. William Julius Wilson's *The Truly Disadvantaged: The Inner City, the Underclass, and Public Policy*, published by the University of Chicago Press last year, is a work of this order. Wilson's description of the black ghetto underclass, his analyses of the causes of their increasing misery, and his proposed solutions have led many to reconsider their interpretations of the phenomena he discusses. Wilson's book has been praised by many policymakers and academics, including Michael Harrington, who characterized it as a "pathbreaking book, critically important to our current public and political debate as well as to social theory."

But although there is much to admire in Wilson's book, it would be foolish to accept his major assumptions and specific analyses uncritically. In particular, much of Wilson's discussion of the social and demographic deterioration of the black underclass is based upon his claim that there is a strong causal relationship between the shrinking pool of young marriageable black males and the dramatic rise in the proportion of out-of-wedlock births and female-headed households among blacks. Wilson fails, however, to demonstrate this relationship in a convincing manner. If we are to understand the rise in out-of-wedlock births, other factors must also be considered.



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Unlike many liberal commentators, who attribute blacks' current difficulties to continued white racism, Wilson points instead to the economic collapse of the inner cities. To be sure, Wilson believes that past racism accounts for much of the present economic inequality between blacks and whites. But today most overt discrimination against blacks has greatly diminished, though it has not totally disappeared; yet young blacks trapped in the inner cities are experiencing an alarming deterioration in the quality of their neighborhoods and lives. Wilson accounts for these social changes in the ghettos in economic terms, emphasizing the great loss of well-paying, unskilled jobs for the least educated that has been caused by our shift from a goods-producing to a service-providing economy. This loss of jobs has culminated in a polarization of the black community, with a truly disadvantaged black underclass in the inner cities increasingly separated from the more privileged middle-class blacks who have moved elsewhere and who have clearly benefited from the civil-rights achievements of the 1960s and 1970s.

Wilson chides his liberal colleagues for failing to acknowledge the problems faced by blacks in ghetto areas. By their silence, he notes, liberals have left the policy discussions of the worsening conditions of inner-city blacks to conservatives who stress the negative impact of the benefits bestowed by the welfare system on family life, or the lack of sound values among members of the underclass. The praise of some liberals for the rise of female-headed households —which they view as a positive functional adjustment to changing economic and social circumstances—dismays Wilson, who sees single-parent households as part of the "tangle of pathology in the inner city."

Rejecting the availability of welfare as the cause of the great increases in the number of out-of-wedlock births and female-headed households, Wilson points instead to the joblessness of young black males in the inner cities as the impetus for these developments. Wilson notes that the labor-force participation of white males ages 24 and under increased from 1940 to 1980, while employment among black men of the same ages declined significantly:

> Both the black delay in marriage and the lower rate of remarriage, each of which is associated with high percentages of out-of-wedlock births and female-headed households, can be directly tied to the labor-market status of black males. As we have documented, black women, especially young black women, are facing a shrinking pool of "marriageable" (i.e., economically stable) men.

In his analysis, Wilson leaves the impression that the problems he discusses, severe as they are, are concentrated mainly among a small group. Wilson does not try to estimate the size of the under-

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class nationally, but Erol Ricketts and Isabel Sawhill of the Urban Institute do so. Defining the underclass so that it includes high-school dropouts, males not in the labor force, people chronically on welfare, and female-headed households—all of whom are geographically concentrated in certain census tracts—Ricketts and Sawhill estimate that the underclass has increased from 752,000 people in 1970 to 2.5 million in 1980. Their proportion of the total population, however, remains quite small—having risen from about 0.5 percent in 1970 to 1.4 percent in 1980. According to this definition of the underclass, in 1980 only 59 percent of its members were black, 60 percent lived in households headed by a female, and 44 percent lived in families below the poverty level. Clearly, what we ordinarily mean by the underclass must be only a subset of the 2.5 million figure they cite.

## Teenage pregnancies

The problems of adolescent childbearing and out-of-wedlock births, however, are hardly limited to 1 or 2 percent of the American population or to blacks. Teenage pregnancy is so prevalent because a very high percentage of all unmarried teenagers are sexually active and do not use effective contraceptives consistently. According to data from the National Longitudinal Survey of Youth (NLSY) in 1983, 64 percent of boys and 44 percent of girls are sexually active by age 18. That figure is higher for blacks than for whites: 59.4 percent of black female adolescents are premaritally sexually active by age 18, compared with only 41.6 percent of white females.

Subdivided further, the same NLSY data suggest that although unmarried female adolescents from poorer socioeconomic backgrounds are more likely to be sexually active than those from middle- or upper-class homes, the difference is small. Among unwed black adolescents whose mothers have not graduated from high school, 63.2 percent are sexually active by age 18, while 53.9 percent of those with mothers who graduated from high school are sexually active. For black male adolescents there is very little difference in rates of sexual activity relative to the level of their mother's education: over 85 percent are sexually active by age 18. The similar rates of premarital sexual activity for black adolescents from different socioeconomic backgrounds suggest that factors outside of conditions in the inner-city ghettos are also at work.

One can cite data on pregnancy rates that exaggerate the differences between socioeconomic groups. Using the recent work of Den-

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nis Hogan and Evelyn Kitagawa on black teenagers in Chicago, Wilson reports that

> 57 percent of the teenage girls from high-risk social environments (lower class, poor inner-city neighborhood residence, female-headed households, five or more siblings, a sister who is a teenage mother, and loose parental supervision of dating) will become pregnant by age eighteen compared to only 9 percent of the girls from low-risk social backgrounds.

But as Hogan and Kitagawa themselves point out, relatively few girls are in very high-risk or low-risk categories, as defined by many characteristics. If we look at larger social subgroups, we find that 21.8 percent of black females ages 13-19 from lower-class families in Chicago have already been pregnant; but 17.7 percent of those from black middle-class homes and 10.2 percent from black upper-class homes also have been pregnant. Moreover, it is the particular characteristics of the girls' families, rather than the quality of the Chicago neighborhood in which they live, that best predict an adolescent daughter's pregnancy. As Hogan and Kitagawa put it, "when the social class and family structure variables important in neighborhood selection are controlled, the addition of the measure of neighborhood quality provides a marginally significant improvement in fit to the model."

Thus, while only a small percentage of the population can be classified as members of an underclass, a significant proportion of all adolescents are likely to become pregnant. Jacqueline Forrest of the Alan Guttmacher Institute estimates (using 1981 data) that 43.5 percent of all girls will become pregnant before age 20—39.7 percent among whites and 63.1 percent among blacks. So even if we eliminated most, if not all, of the pregnancies among black teenagers in the ghettos, adolescent pregnancy would continue to be a major national problem that needs to be addressed—regardless of any policies covertly or overtly intended to help the disadvantaged.

Even though Wilson repeatedly cites high rates of adolescent pregnancies as one of the major social problems in inner-city ghettos, he never fully explains why they occur so frequently. Instead, he attributes the rise in out-of-wedlock births to the decreasing labor-force participation of young black males. But is a shrinking pool of marriageable men really the major explanation for out-of-wedlock births and female-headed households, as Wilson suggests?

## Assessing Wilson's argument

When black males faced severe discrimination and extraordinarily low wages after the Civil War and in the early twentieth cen-

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tury, was there was a high incidence of female-headed households? As Herbert Gutman and other historians have documented, most black families then were two-parent families; most black female heads of households were widows. If the two-parent black family was able to survive even under the extremely adverse economic and social conditions of a hundred years ago, why does it falter today —when the per-capita income in real dollars of most black males is so much higher than in the past?

Wilson makes much of the apparent correlation between the rise in out-of-wedlock births and the decreasing number of employed men per hundred women of the same age and race; but here, too, his argument is flawed. While the long-term increase in black joblessness might explain the rise in out-of-wedlock births among black adolescents, how do we account for the fact that out-of-wedlock births among white teenagers also increased—even though the rate of employment among young white males has stayed the same or even grown? Similarly, the relationship between black male employment and out-of-wedlock births is not as straightforward as Wilson suggests. While the long-term decline in employment among young black males coincides with the increase in out-of-wedlock births, there have been periods, such as the 1950s, when the out-of-wedlock birth rate continued to increase even though employment rates improved among young black males.

Wilson further tries to demonstrate a relationship between changes in the pool of marriageable males and the proportion of female-headed households at a regional level. But his methodology and his results are not convincing. Wilson looks at four regions rather than fifty states. Had he used data for all the states rather than the four regions, Wilson would have had enough cases to introduce other potentially important factors into his analysis, such as changes in welfare benefits; he could also have employed more sophisticated statistical techniques, such as multiple regression analyses.

Furthermore, Wilson's findings raise serious questions about his overall interpretation. For example, in the West there was very little change in the black male marriageable-pool index from 1960 to 1980; yet the proportion of black women ages 15-44 heading a household rose 8.7 percent. Wilson tries to explain this anomaly away, but his arguments are not convincing; they simply underscore the weak empirical basis for his assertions.

Wilson's thesis about the clear causal connection between joblessness and out-of-wedlock births among blacks is not supported by

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the statistics on adolescent birth rates. In 1985, 89.7 percent of all births to black adolescents ages 15-19 were out of wedlock. That percentage would be even higher if we calculated the rate for first births only. Virtually all first births to black adolescent mothers today are out of wedlock; it is extremely unlikely that these young women will marry, regardless of the economic circumstances of the young father—whether he is trapped in the inner-city ghetto or has moved to the middle-class suburbs.

Although young black men are clearly disadvantaged as a group compared to whites, many of them are capable of providing financial support for their children. Based upon data from the National Longitudinal Survey of Labor Behavior for 1979-1982, Robert Lerman of Brandeis University points out that half of black absent fathers ages 18-22 were employed or in military service; another 20 percent were in school. Clearly, joblessness among young fathers cannot explain why so many mothers of black children remain single.

What can explain these trends? Wilson, like others, argues that welfare cannot cause the problem. Irwin Garfinkel and Sara McLanahan have reviewed the existing literature on household structure and welfare. They conclude that the increase in government benefits led to only a small percentage of the overall increase in single-parent families from 1960 to 1975. As welfare benefits are most important to low-income groups, however, Garfinkel and McLanahan speculate that the increase of government benefits between 1960 and 1975 may account for as much as 39 percent of the growth of "mother-headed families" among those with low incomes. Therefore, while increases in federal and state welfare benefits are not the major reason for the rise in out-of-wedlock births, especially in the recent past, we should not underestimate their earlier influence, as well as their continued role today in making single-parent households economically viable for low-income young mothers.

## Cultural explanations

But to understand the rise in out-of-wedlock births, one must also consider changes in values and culture. While values and culture are shaped to a large degree by the social and material environment in which we live, our values and cultural heritage—once in place—can play an independent, though constrained, role in our perceptions of the world and our actions in it. They have played an important part in the increasing proportion of out-of-wedlock births for both blacks and whites, and have contributed to the differences between black and white marital behavior.

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During the past thirty years there have been significant changes in our convictions and beliefs about marriage, out-of-wedlock births, and personal responsibility and obligation. Each of these changes has contributed to the increasing proportion of out-of-wedlock births among adolescents, just as increases in black male joblessness and the availability of welfare benefits have.

Americans are postponing their marriages. The median age at first marriage has risen from a low point of 20.1 years for females and 22.5 years for males in 1956 to 23.3 years for females and 25.5 years for males in 1985. While most people eventually marry, a sizable minority now forgo marriage altogether—especially among the black population. Furthermore, as Joseph Veroff and his colleagues have shown, using survey data from 1957 and 1976, an increasing number of Americans harbor a negative attitude toward marriage generally. Although most Americans still value marriage as an institution and plan to marry at some point, marriage does not seem to be as important or central to our lives as in the past.

At the same time that Americans have been postponing marriage, they have also become more tolerant of out-of-wedlock births, divorces, and female-headed households. The strong communal intolerance of out-of-wedlock births and unwed mothers that characterized American society for many years has diminished. While few regard out-of-wedlock births as desirable, they are increasingly accepted as a normal and expected event in the lives of many adolescents and young adults.

Finally, the sense of moral responsibility and obligation that most individuals used to feel for their actions has declined. Although the rate of premarital pregnancy and early childbearing peaked thirty years ago, the proportion of children who are born out of wedlock has greatly increased since then. A young father is less willing and less expected to accept responsibility for the child and to marry the mother.

Not only is there reason to believe that the increase in the proportion of nonmarital births is influenced by changes in our attitudes toward marriage, out-of-wedlock births, and the role of fathers; there is also evidence suggesting that these changes may have affected the black community earlier and more profoundly than the white community. As noted earlier, although the racial differences in the proportion of out-of-wedlock births between black and white teenage mothers have diminished, there is still a considerable gap. Among mothers ages 15-19, 89.7 percent of black births are out of wedlock, while only 44.6 percent of white births are out of

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wedlock. Moreover, the birth rate per thousand unmarried black women ages 15-19 in 1985 was 88.8, while for comparable white women it was only 20.5.

The gap between black and white premarital births is not simply a reflection of socioeconomic differences. Racial differences remain even after controlling for the effects of other variables. Using the National Survey of Family Growth of 1982, Larry Bumpass and Sara McLanahan found great diversity in premarital births within racial subgroups. Black women from high-risk backgrounds (from single-parent families, whose parents are high-school dropouts, and who live in a central city in the Northeast) are three times more likely to have an out-of-wedlock birth than black women from low-risk backgrounds (from two-parent families, whose parents graduated from high school, and who do not live in a central city in the Northeast). Black and white women from identical high-risk backgrounds have similar rates of premarital births, but blacks from low-risk backgrounds have higher rates than whites from low-risk backgrounds.

Similarly, William Marsiglio's national study of men ages 20-27 in 1987 who had fathered a child as a teenager found that being black or Hispanic was strongly associated with not getting married, even after controlling for the effects of the other characteristics of the father or his parents. The rate of nonmarital births for all blacks was only slightly higher than that for poor whites, but much greater than that for nondisadvantaged whites. In other words, while socioeconomic differences between blacks and whites can explain some of the variations in premarital and nonmarital childbearing, real differences still remain, suggesting the possibility of cultural differences in the tolerance of out-of-wedlock births and unwed mothers.

## Policy proposals

Wilson documents the deterioration of life in inner-city ghettos by enumerating the social problems that reached "catastrophic" proportions in the mid-1970s—"crime, drug addiction, out-of-wedlock births, female-headed families, and welfare dependency" —and ties these social problems broadly to changes in the economy and the growth of black male joblessness. His proposed suggestions for helping the truly disadvantaged do not address most of these particular social problems; instead Wilson calls for the "creation of a macroeconomic policy designed to promote both economic growth and a tight labor market."

While no one, probably, would disagree with Wilson's call for providing more and better job opportunities (though there will be

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strong disagreements on how to achieve this goal), his approach may not be the best or most efficient way of dealing with many of the social problems in the inner cities. Better employment opportunities may help to lower high crime rates and drug use, but they are not a panacea. Without more crime control and drug education, for example, many youths in the inner cities will still find illegal activities more attractive and lucrative than regular jobs. Furthermore, the members of the underclass might help themselves by altering behavior that contributes to their disadvantaged position. While changes in personal behavior may not necessarily provide more job opportunities, they may still improve life by preventing the harm caused by drugs or unintended childbearing. Teenage mothers are seriously disadvantaged compared to those who postpone childbearing and continue their education. It is much less expensive to prevent an unintended pregnancy than to provide assistance to alleviate the consequences of early childbearing. Moreover, delaying motherhood will enable young women in the inner-city ghettos to avoid worsening their already disadvantaged position.

In dealing with adolescent childbearing, our efforts should focus on preventing pregnancy. We should try to reduce early sexual activity among adolescents. Thirteen- and fourteen-year-olds are neither emotionally nor financially ready to deal with the serious consequences of early sexual activity. According to the National Longitudinal Survey of Youth, 42.4 percent of black males and 16.6 percent of white males are sexually active before their fifteenth birthday. While discouraging early sexual activity is difficult in a society that often glorifies early and illicit sex, we must begin by clearly and unequivocally explaining to our children that early sexual intercourse is inappropriate and potentially harmful to them and their partners. We must also reconsider whether the constant barrage of explicit and exploitative sexual themes in movies that our adolescents attend, television programs that they watch, and popular music that they hear is really in their best interest. Family life and sex-education programs should teach teenagers to postpone sexual activity, in addition to providing information on contraception for those who are sexually active. None of these programs, however, will succeed unless parents talk more openly with their children about sex.

Since many teenagers will continue to be sexually active, their parents must help them to use contraception responsibly. Although Wilson never mentions the importance of family-planning clinics in his book, they are indispensable in the effort to reduce unintended pregnancies among sexually active adolescents today. While new

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ways must be found to provide family-planning services to sexually active teenagers more effectively, the federal government should continue its support for these projects through the Title X Family Planning Program for those individuals who cannot afford them.

Our highest priority should be to prevent unintended adolescent pregnancies; but if a teenager is pregnant and decides to keep the baby, we must try to minimize the negative consequences of early childbearing in ways that avoid the trap of welfare dependency. The primary responsibility for the care of the child rests with the young couple and the grandparents, but private and government assistance should also be available where needed. Such assistance, however, must work to encourage two-parent families.

There is no solution to these problems unless we emphasize individuals' responsibility for their own actions. If a young man becomes a father, for example, he should incur the financial responsibility for helping to raise his child for the next eighteen years, even if he can make only token payments initially. It is essential to establish his legal paternity, his financial responsibility, and his duty to spend time with his child even if he does not marry the mother. If necessary, the judicial system should be used to see that the father continues to provide financial support for the child—perhaps along the lines suggested by the experimental Wisconsin Child Support Assurance Program that Wilson mentions.

Finally, pregnant teenagers who plan to keep their babies should be encouraged to consider the option of marriage more seriously. While teenage marriages are more likely to end in divorce than those among older partners, the rate of dissolution is not as high as the popular media suggest. In addition, there are substantial economic advantages for the young mother as well as psychological and educational benefits for the child in a successful marriage that may be unavailable in a single-parent household. Regardless of whether we adopt Wilson's larger program to restructure the economy, we can help young couples immediately by moderately expanding and redirecting existing social services. Most service programs for adolescents who are pregnant focus almost exclusively on the needs of the teenage mother and her child, and usually ignore the young father's needs; we should also help those married couples who try to raise their children together. We should not forget another "truly disadvantaged" person in our society today—the young man who accepts responsibility for fathering a child by marrying the adolescent mother and helping to rear the child.

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# The case against the SAT

JAMES CROUSE & DALE TRUSHEIM

ACROSS THE COUNTRY high school students' alarm clocks ring at 5 a.m., perhaps the earliest ever for a Saturday morning. But then this isn't the usual Saturday morning. This is SAT morning, when hundreds of thousands of high school juniors and seniors will take the Scholastic Aptitude Test, hoping to score high enough to get into the colleges of their choice.

A million and a half students take the test each year, many for the second or third time. Some take the test even more times. A few years ago, 18 percent of the 10,000 applicants to the Naval Academy reported four sets of scores. Two percent reported eight or more. One eager applicant took the test nineteen times.

The SAT is constructed, administered, scored, and explained to the public by the Educational Testing Service (ETS), the nation's largest nonprofit educational-research organization, with over 2,400 employees. With headquarters just outside Princeton, New Jersey, ETS maintains field offices in seven other American cities. It boasts that its international activities "extend to every continent, to nations ranging alphabetically from Argentina to Zaire."

Nearly six million people took ETS tests in 1983. Besides the SAT, ETS gives tests that help decide who will enter our nation's



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elite secondary schools and its graduate and business schools, and who will receive certification as a teacher or an attorney. For the past six years we've examined the examiners, to determine the validity of ETS's claims on behalf of the SAT. Our research grew out of the controversy sparked by Ralph Nader and Allan Nairn in 1980 with their publication of *The Reign of ETS*, a report highly critical of the Educational Testing Service. We thought that the report's version of ETS's role in the history and development of admissions testing was oversimplified, and that its conclusions about the usefulness of the SAT suffered from serious technical flaws. Nevertheless, some of the charges leveled by Nader and Nairn, as well as the counterclaims made by ETS on behalf of the SAT, warrant more careful scrutiny than anyone gave them.

Unlike many critics, we do not question ETS's claim that the SAT measures important abilities that are related to educational success. Rather, we argue that *despite* its ability to predict educational success, the SAT is unnecessary. This apparent paradox disappears when one recognizes that even when a test predicts college success fairly accurately, it may not *improve* prediction much when used to supplement information available from high schools about students' coursework and grades.

Our study of ETS's promotion of the SAT reveals how ETS has violated the public confidence placed in it. At times, ETS and the College Entrance Examination Board (the nonprofit organization that sponsors the SAT) have behaved more like corporations bent on defending their products at all costs than like nonprofit institutions working for the public good. Rather than openly assessing the effects of their products, or even debating the adequacy of others' assessments, these organizations have failed to gather serious evidence for their claims, and have often ignored or denounced evidence that undermines their positions.

## ETS myth #1: The SAT helps colleges

ETS and the College Board assert that SAT scores are intended to supplement the secondary-school record and other relevant information about students to assess their competence for college work. Why use SAT scores to assess competence for college work? Because, ETS says, although "students' previous grades are the most important indicators, . . . the addition of scores on good tests adds significantly to the prediction of success."

How much does the SAT add to the prediction of success? George H. Hanford, past president of the College Board, puts it this way:

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"Thousands of validity studies prove that the SAT increases predictive efficiency by 40 to 50 percent when it is used in helping to estimate first-year college grades." Although Hanford exaggerates the predictive efficiency of the SAT, students with the same high school grades but different SAT scores do have varied prospects of college success. More often than not, students with higher SAT scores will have higher freshman grades and a higher probability of graduating from college.

But these studies tell us almost nothing about the usefulness of the test to colleges, because predicting freshman grades is not the ultimate goal of the admissions process. The raison d'être of a college admissions office is to admit or reject applicants. The SAT can be useful only if it helps colleges admit students they would normally reject on the basis of their high school records, and reject applicants they would normally admit using only high school records. If colleges that used the high school record were to admit and reject the same students whether or not they also used the SAT, the test would add nothing to colleges' actual admissions decisions—though it might still be useful for counselling those admitted.

Our analysis, based on data from hundreds of American colleges, indicates that an admissions policy based on the high school record alone will classify at least 84 percent of the applicants identically with one based on the high school record and SAT. Of the remaining 16 percent whose admissions results *change* by including SAT scores, only a few will clearly be categorized more accurately. In other words, most students whose SAT scores have kept them out of a particular college would have done as well there as the average student whom the SAT admits. Using average freshman grades as a measure of how well the admissions process has selected a class, our research shows that American colleges make only one to three additional clearly correct admissions forecasts—admitting students who will have successful freshman years and rejecting ones who will not—out of each hundred as a result of using the SAT.

The benefits of the SAT are not impressive when we look at how little the test helps colleges improve the average grades of the students they admit. The typical gain to colleges from adding the SAT to the high-school record is only an increase in average freshman grades of 0.02 on the usual four-point scale. The SAT is even less useful in predicting which students will graduate from college. On average, only one to three correct forecasts per thousand are added by using the SAT.

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From a practical viewpoint, then, colleges could ignore SAT scores when they make selection decisions without appreciably altering the academic performance and graduation rates of the students they admit. We doubt that any college would notice the small loss in predictive efficiency brought about by abandoning the SAT.

### ETS myth #2: The SAT helps applicants

ETS encourages applicants to use their SAT scores to select colleges whose academic standards are not too rigorous for them. Our evidence suggests, however, that applicants cannot effectively use their SAT scores this way. Nor, as far as we can tell, has ETS tried to verify the claim that they can.

Many American colleges are relatively unselective. The 1985 American Association of Collegiate Registrars and Admissions Officers' study of admissions policies showed that 90 percent of the two-year public colleges and 15 percent of the four-year public colleges surveyed either did not review applicants' academic qualifications or admitted any high school graduate.

Most four-year colleges are somewhat more selective, however. Sometimes selective colleges use their catalogs and other publications to tell the public quite explicitly what kind of students they want. But anyone who has browsed through many college catalogs or commercial guides to colleges knows that explicit descriptions of admissions requirements are the exception, not the rule.

Prospective applicants know very little about a college's admissions standards. Many colleges judge how well a prospective student will perform academically on the basis of considered but informal observations of how well past applicants from known high schools have done. In general, prospective applicants know neither what exceptions a college might make to its own requirements nor how colleges may weigh other factors like extracurricular activities, ability to pay, or being a child of an alumnus.

Since completing college applications takes time and effort, and submitting them costs money, most high school students try to apply to colleges to which they have a reasonable chance of being admitted. Leonard Baird, a former researcher at ETS, found that students who took the SAT applied to an average of 2.4 colleges and were accepted at 1.9 of them. Only 5 percent were not accepted by any college; this figure typically varied by only one to three percentage points, depending upon the applicant's family income and SAT score.

The self-selection to which these figures point is useful because it screens in prospective applicants who are likely to be successful, and

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screens out prospective applicants who are likely to do poorly. For example, if a highly selective college whose freshmen average 1200 on the SAT accepted all the students who applied to similarly selective colleges, it would have a freshman class whose grades averaged 2.89 on a four-point scale. The failure rate would be 9 percent. If it accepted the applicants to any college, the freshman grade-point average would fall to 2.61, and the failure rate would increase to 18.9 percent. In this case, self-selection raises freshman grades from an average of 2.61 to 2.89 and lowers the failure rate from 18.9 to 9 percent.

These results illustrate how applicants' self-selection can help selective colleges by improving the quality of their entering classes. The results do not, however, show that students need to make use of their SAT scores to achieve these benefits.

Information that applicants receive from colleges, prospective applicants' own academic records, test scores, family influences, and a variety of other factors all contribute to a student's decision about where to apply. More often than not, these various sources tend to agree about where the student should apply. The result is that the judgments applicants could make about their academic performance in college by using their SAT scores are essentially identical to the judgments they could make without using them.

Suppose that applicants did not use their SAT scores to help them decide where to apply. The most obvious information they could use to estimate their academic success at any college would be their knowledge about the competitiveness of that college, along with their self-understanding (based upon their high school performance and other sources). Now suppose each applicant made a second prediction of how well he would do, using all the other information and his SAT scores. The important question is whether the additional information derived from the SAT would change the applicant's estimate of success enough to alter his decision about whether to apply to the college.

Using freshman grades as a measure of success, our analysis shows that if applicants were able to predict as well as we can statistically, the two predictions for any applicant would differ by only 0.09 of a grade on average; they would seldom differ by more than 0.3 of a grade. Furthermore, there would be almost as much variation in actual freshman grade averages for applicants who predicted the same grades for themselves as there would be for the entire group. This low accuracy of predicted grades makes it unlikely that

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applicants would notice or pay attention to the small difference in predictions brought about by knowing the SAT scores.

Of course, applicants may not be able to predict their academic performance as accurately as we can statistically. They may therefore make incorrect predictions about their likely freshman grades. This will happen any time an applicant's SAT scores make him reach a conclusion about his likely freshman success that differs very much from the one reached on the basis of his high school record and the character of the college being considered.

ETS often praises the SAT for the help it provides students in self-selection. But it has never investigated how many students apply to colleges for which they are certainly not qualified solely because they did well on the test. Nor has it tried to determine the number of students who fail to apply to schools where they might be admitted, simply because their scores seemed too low. In matters of self-selection, it is unclear whether the SAT does more harm than good.

### ETS myth #3: The SAT promotes equal opportunity

For a long time it has been known that one can accurately predict the future success or failure of prospective college applicants, simply by knowing their race, the quality of their schooling, and their family background. In the past ETS denied that the competition among students with widely varying backgrounds was unfair. In 1960 it took the view that "justice should be done each individual according to his merit." The objective test "is a common touchstone. . . . It gives all students who take it the same chance, asks them to run the same race—even though they have had different economic backgrounds, different educational, cultural, and social opportunities."

Twenty years later, after overwhelming evidence had shown that student scores on ETS's "common touchstone" correlated closely with students' race, family income, and parental education, ETS guardedly admitted that the competition might be unfair:

> While there is a correlation between family income and test scores, other indicators of educational achievement, including school grades, have similar relationships to students' economic backgrounds. These are reflections of a [*sic*] fact that, in our society, students from higher income families enjoy educational advantages that many lower income students do not.

By 1984 ETS acknowledged that the competition for college admission was unequal, but claimed that standardized tests could help rectify matters:

> To attack testing because of unfavorable results is to attack a potential force for improving those results. Throwing away the thermometer does

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> not cure a virus. So it is with the problem of unequal educational opportunities. . . . Such information [test results] helps to focus public attention on unequal opportunities and to keep public pressure on these inequities until they are corrected.

Not surprisingly, those who wish to enlarge educational opportunities for minorities and low-income students feel little gratitude toward ETS. The "public attention on unequal opportunities" that ETS claims to focus seems to wax and wane. But steadily and certainly, ETS's standardized tests have helped to lessen the chances that the average economically disadvantaged student will be admitted to a good college. The SAT appears to have an even harsher effect on black admissions.

What are the effects on black applicants of colleges using the SAT? Our research indicates that when admissions decisions are made without regard to applicants' color—so that the same standards are used for whites and blacks—adding the SAT to the high school record reduces the number of blacks admitted to colleges, sometimes by more than half, but does not reduce the number of whites admitted.

Some colleges might justify lowering the number of admitted blacks if use of the test yielded better performance on the part of those black students who were admitted. We could find no evidence that it does, however. Adding the SAT leads to the indiscriminate rejection of both potentially unsuccessful *and* successful blacks. We found that randomly rejecting the same additional percentage of blacks that the SAT helps to reject leads to admissions outcomes, measured in terms of freshman grades or graduation rates, that are almost identical to those reached with the aid of the SAT.

Consequently, a color-blind admissions process using the SAT in effect adds a supplement to the high school record that fails to distinguish good students from bad, but rejects blacks. We found this to be as true when the test is used to predict the likelihood of college graduation as when it is used to predict freshman grades. We also found that the test has a similar impact on low-income applicants.

However, because many college admissions officers worry that their admissions procedures harm the prospects of black applicants, few make color-blind decisions. Instead, officers often use quotas of some sort and lower their admissions standards in order to enroll these students.

To the extent that they do so, using the SAT does not reduce the number of blacks admitted, because colleges decide to admit a cer-

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tain number of blacks regardless of SAT results. But the SAT could still influence *which* blacks are admitted. For this reason we can wonder whether a college that uses the SAT to help it decide which blacks to admit will make better admissions decisions than one that uses only the high school record. We find that it will not.

Colleges that use the SAT to evaluate black students will make the same admissions decisions—to admit or reject—for almost every black applicant that they would make without the SAT. Admissions outcomes for blacks are virtually identical under the two admissions policies. This is as true when the admissions standard is set to admit a large percentage of the blacks who apply as when it is set to admit a small percentage of them. Colleges could therefore drop the SAT with no loss in their ability to choose successful black applicants.

## Overselling the SAT

Over the years ETS and the College Board have done a masterful job of promoting the SAT. One of the cornerstones of their testing logic has always been "to each according to his or her predicted success." Admission to college based on predicted success is currently justified by the two concepts of fairness and efficiency. The test is fair, ETS claims, because it measures aptitude rather than textbook knowledge; therefore the scores do not reflect the quality of the applicants' schooling. It is also efficient, in ETS's view, because it can predict how well students will perform in college, and therefore which colleges they should attend.

But before fairness and efficiency became the pitch, ETS had used several others. Since its inception in 1947, ETS has carefully marketed the SAT to each succeeding generation. After World War II, for instance, ETS advanced the SAT as a means of discovering the appropriate manpower required for an increasingly technological society. During the Cold War, ETS advocated the SAT as a "secret weapon" to combat the Soviet educational system. In the 1960s it encouraged colleges to think of the SAT as an aptitude test that predicted success in college by being able to control for poor preparation and adverse social and economic circumstances.

Few people ever took the trouble to examine the validity of these various claims because they reinforced widely held beliefs. The current themes of fairness and efficiency are warmly received and rarely questioned by colleges today. But if ETS succeeds at public relations, it still fails to provide a useful service. ETS has too much influence over what the public learns about its tests; in the absence

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of competition, it has not been forced to supply the information needed by colleges and consumers.

## Eliminating the SAT

Many college admissions officers become distinctly nervous at the suggestion of dropping the SAT. This would require them to rate applicants solely on the basis of their high school grades and class ranks, the quality of their high schools, and the difficulty of their courses. As we have seen, such information should be adequate to determine the eligibility of applicants. Nevertheless, if admissions offices did decide to drop the SAT, it is likely they would also have to drop the eligibility formulas so many of them use to lighten their work loads. Admissions officers would then have to study each application more carefully; they might worry that more mistakes would be made.

But this fear is largely groundless. Many selective colleges in our country are very small, with undergraduate enrollments of less than 2,000. They may receive 1,500 or fewer freshman applications every year. Even small admissions staffs at these colleges could easily read every application and make admissions decisions without the SAT. The important question is how well they could evaluate a candidate's credentials without the SAT.

We think they could evaluate them quite well. Admissions professionals have, in the vast majority of cases, detailed knowledge of applicants' high schools and the success or failure of other students from those schools; in some cases they may even be personally acquainted with the guidance counselor, principal, or headmaster. When applicants are from a completely unknown high school, the admissions officer can telephone to request information such as the applicants' rank in class, syllabi of courses they have taken, or college-attendance rates for earlier graduating classes. Alternatively, the admissions officer can contact a colleague whose college has experience with the school in question.

During the fall of 1986, SAT scores were delayed at Amherst College for about 10 percent of their early-decision candidates. Henry Bedford, dean of admissions, read the applications without ETS reports. After the scores arrived, other members of Bedford's staff evaluated the candidates. Bedford wrote us: "In no case did the academic rating vary from mine; the only serious difference was a question of the magnitude by which one candidate was not qualified for admission." Although this information is clearly unsys-

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tematic and anecdotal—it is based on only about forty cases—it certainly does not portend disaster if Amherst were to drop the SAT.

A little more problematic, in our opinion, is the case of the larger colleges and universities that receive thousands of applications annually. Of course, the number of applications that must be studied carefully at these colleges may be much smaller than the thousands received, since many decisions to admit or reject are clear at the outset. Moreover, the highly selective colleges that receive large numbers of applications from well-qualified students have admissions staffs large enough to make admissions decisions as carefully as small selective colleges. Still, in many larger but relatively unselective colleges and universities, it is impractical for admissions officers to give every applicant's folder the same careful study that small selective colleges can.

These are the colleges that necessarily rely on selection formulas to aid in their decision-making. The best of these formulas use information about applicants' high school work and test scores to forecast their academic success. Our findings show, however, that adding applicants' SAT scores to formulas based on their high school records changes very few admissions decisions, and improves colleges' admissions outcomes very little.

Consequently, both small and large selective colleges and universities that now use the SAT could drop the test with no serious negative consequences; their acceptance rates for blacks and lower-income applicants would probably increase if they do not now use a quota. In general, we are inclined to side with David Owen's conclusion: "If the SAT simply disappeared tomorrow, admissions officers would squawk for a year or so, the foundations of the Henry Chauncey Center [at ETS] would tremble, and life would go on as before. The SAT plays virtually no useful role in college admissions right now. Getting rid of it would not, by itself, make admissions very different."

Some undergraduate colleges have already made the SAT optional recently, most notably Bowdoin and Bates. The experience at both colleges has proved positive. Reports also surface periodically that Harvard and other major universities are considering the same step.

But suppose that American colleges that now use the SAT were to begin dropping the test over the next few years, and suppose further that no harm was done as a result. It would follow then that colleges could drop the SAT and make their admissions decisions based solely on applicants' high school records. But it would not fol-

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low that colleges *ought* to drop the SAT and rely only on high-school records. One reason not to drop all admissions tests is that other kinds of admissions tests may have virtues the SAT lacks. (See Christopher Jencks and James Crouse, "Aptitude vs. Achievement: Should We Replace the SAT?" in *The Public Interest*, No. 67, Spring 1982.)

### The case for achievement tests

From the founding of the College Board in 1900 until the 1940s, the most common standardized tests were achievement tests, which were offered in subjects like history, chemistry, mathematics, physics, and English. Aptitude tests like the SAT did not exist until the 1920s, and did not become popular until two decades later. Both the flaws in the SAT and the merits of achievement tests lead us to advocate replacing the SAT with achievement tests.

One of the things a test does is certify competence. What kind of competence does the SAT certify? Is it what colleges want? Samuel Messick, an ETS vice president for research, is the company's leading spokesman on the skills measured by the SAT. He says the SAT "measures developed abilities of verbal and mathematical reasoning and comprehension." But even if the SAT measures these things, we doubt that colleges are interested in having *only* these abilities certified. If that were so, colleges would have stopped looking at high school grades in academic courses long ago.

Achievement tests attempt to measure knowledge of particular high school subjects rather than general ability, and therein lies their advantage. Both college teachers and the general public have become increasingly concerned in recent years that college freshmen know less than they used to. Most observers agree that American high school students do less academic work than their counterparts in Europe and Japan. They also agree that one reason European and Japanese teenagers work hard is that they must take achievement tests at the end of secondary school; these tests largely determine whether and where they will be allowed to obtain higher education. If American colleges were to base admissions on high school grades and tests that certify mastery of the secondary-school curriculum, instead of basing it on grades and tests that measure vocabulary, reading comprehension, and general mathematics, high school students eager to attend college might be encouraged to take their academic work more seriously.

A college-admissions testing program that emphasized achievement tests would also create incentives for high schools to offer

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more demanding academic courses, and for college-bound students to take them. A high school senior trying to decide between a European history course and a nonacademic elective, for example, is more likely to choose the history course if he knows he must compete favorably against others on a history achievement test to get into a selective college.

Emphasizing tests that measure mastery of the secondary-school academic curriculum would encourage high school students to take more difficult courses. It is true that college-bound students are somewhat encouraged to take advanced courses, because college admissions offices take note of what courses they have taken and what grades they have received. But the additional incentive of achievement tests can only encourage them more.

### Achievement tests and curricular diversity

The effect of replacing the SAT with conventional achievement tests would depend, of course, on how the system worked. If too few colleges required applicants to submit achievement-test scores, students would not take them seriously, or might not take them at all. But if colleges in large or even moderate numbers were to require conventional achievement tests, and to convince students that their scores were important, secondary schools might offer courses that would supply students with the general educational background that many find lacking in today's college freshmen.

Some who oppose the use of conventional achievement tests for college admissions argue that preoccupation with tests would drive teachers to teach only information relevant to the tests; they also fear that the tests would encourage cramming, discourage creative thinking, and concentrate attention on skills amenable to measurement by the multiple-choice format. We too would oppose the exclusive preoccupation of teachers with preparing for the tests, but we do not think this will happen if the tests cover sufficiently broad areas, if test questions are kept secure prior to their use, and if essay questions are asked, as they are now.

The College Board currently offers achievement tests in fourteen subjects. If more colleges were concerned with measuring achievement, ETS could easily double this number; it could even give several types of exams in the more popular subjects. If colleges allowed students to take as many exams as they wanted, while only reporting their highest scores, students could take a lot of unorthodox courses without jeopardizing their admissions prospects. Many col-

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leges would embrace a system that encouraged diversity in academic interests. Such a system would still reward verbal and mathematical reasoning and comprehension, as the SAT now does, but it would also require and reward sustained study in at least a few additional areas, which the present admissions testing system does not.

### New kinds of achievement tests

ETS's achievement tests have rightly been criticized for their superficiality and for the ease with which they can be coached, however. For this reason a better model for achievement testing, one that tries to ensure a match between what is tested and what is taught, is the College Board's Advanced Placement Program (AP). High schools that participate in the Advanced Placement Program offer courses based on course descriptions and detailed specifications worked out by representatives of both colleges and high schools. The program's major components are curriculum materials for twenty-four college-level courses in thirteen subjects, AP workshops and institutes for teachers, and annual college-level examinations for students. A recent survey for the College Board by Research and Forecasts, Inc., strongly supported the program as "a model for improving educational quality."

Why not extend the idea of Advanced Placement courses to college-preparatory courses generally? A new admissions achievement-testing program covering specified curricula in a large number of areas could encourage students to take a variety of serious academic courses in high school, while giving admissions officers as much common ground as the SAT currently provides.

The College Board has recently been reconsidering the relative merits of uniform achievement testing. Its Project Equality program, which was begun in 1980, has brought together hundreds of school and college educators, laypeople concerned with education, and subject-matter specialists to draft and build a consensus for a new statement of "Preferred Patterns of Preparation" for college in the 1980s and beyond. Project Equality has already identified areas in the secondary-school curriculum that "can be defined in measurable terms."

Were the College Board to expand Project Equality to include the development of achievement tests and curricula along the lines of the Advanced Placement Program, it would encourage changes in our admissions-testing system that reward those who learn the most in secondary school. As long as the tests are given and graded nationwide, the system would still provide admissions officers with

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a common yardstick, but it would also provide the other advantages we have presented: the tests would certify competence, encourage educational improvement, promote curricular diversity, and emphasize academic content. Given the failure of the SAT to do these things, and to do what ETS says it does, such a system would represent a vast improvement over the present one.

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# Affirmative-action admissions: how it "works" at UC Berkeley

JOHN H. BUNZEL

*"It's important for applicants to know that grades are important only one-half of the time."*

UC Regent Harold Williams

ANY THOUGHTFUL DISCUSSION about college-admissions procedures and decisions is likely to turn into a discussion about competing values and their relationship to the hard choices an admissions office faces. And nowhere is there more heated debate than in the controversy over the standards to apply to so-called majority- and minority-group members in an institution's effort to achieve both ethnic diversity and academic excellence.

In an affirmative-action utopia, all groups would be represented in perfect national proportion in every aspect of American life. At Stanford University, a subcommittee report imagined "an idealized scenario" in which applications for admission would perfectly reflect the ethnic composition of society at large, and matriculation rates for admitted students would not differ among ethnic groups. But

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the ideal world is not the real world. In the real world, everything is not equal.

During the last two decades, colleges and universities throughout the country have adopted affirmative-action programs that have sought to remedy "inequity" in admissions by providing some kind of substantial representation for all groups. The issue is no longer whether there will be affirmative action, but how much is desirable and for what purposes. The focus here will be on a first-rate public institution—the University of California at Berkeley—and more specifically, on the principal features of its affirmative-action plan for undergraduate admissions. My goal is to examine the performance of the affirmative-action ethnic groups Berkeley has recruited, and to analyze some of the results of and reactions to Berkeley's policies.

The special efforts of the University of California—which is comprised of nine campuses including that at Berkeley—to increase the number of minority and low-income students began with the inauguration of the Educational Opportunity Program (EOP) in 1964. In recent years, the University has been under great pressure from the California state legislature to adopt a specific plan of action, in which each of the nine campuses would identify its affirmative-action goals at the undergraduate and graduate levels and describe in detail "the University's outreach and support services programs, the programs' administrative structure displaying lines of responsibility, the compendium of service activities, and the involvement of UC faculty, staff, students, parents and community members."[1]

In preparing its 1983 five-year plan (the second such plan to be prepared), the University of California established both long-term and short-term goals for increasing underrepresented minority enrollment. Its long-term goal "is to enroll and achieve a balance among University students and graduates comparable to the ethnic, gender, and income distribution of California's high school graduates." The University's short-term goals are noteworthy because for the first time numerical goals have been established for the admission of underrepresented minorities—that is, suggested percentages are intended to serve as a *minimum* for each of the UC campuses in setting its own targets. The five-year plan also estab-

[1] The wording is taken from the 1982-1983 budget bill of the California legislature, which paralleled the University of California's planning initiative by requiring submission of a new five-year Student Affirmative Action plan to the legislature by April 1, 1983.

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lished goals for the retention and graduation of targeted underrepresented minority groups. Unlike affirmative-action enrollment goals, however, these are not specified numerically. Instead, the plan states that consistent with the University's long-term goal for admission and enrollment of students from underrepresented groups, "it is also a goal to graduate students in proportion to their representation among high school graduates." Furthermore, the plan outlined changes in the Student Affirmative Action (SAA) programs themselves. Outreach programs are now to be aimed more specifically at grooming students for UC rather than for college generally; and a more concerted effort is to be made to keep track of community-college students who may be eligible to matriculate at a UC campus.

## Setting Berkeley's standards

All prospective students in the University of California system must meet minimum University admissions criteria to which all of the campuses subscribe. If students fulfill these criteria, they may then submit one application that entitles them to be considered for admission at as many campuses as they wish. Once this requirement is met, each campus is free to determine what its own selection criteria will be, and how they will be applied.

At Berkeley, where there are so many applicants (in the words of the Associate Director of Admissions) "from those populations that are not actively recruited, where we get ample numbers of applicants"—meaning white and Asian-American applicants—"it is certainly true that they cannot and will not get in if they're just simply minimally eligible. They have to compete at a much higher level." He goes on to say that Berkeley has established "a major commitment to come in line with the letter of the legislative mandate and to actively recruit, both individually and collectively, by our own outreach operations as well as through special programs, those individual students who have been historically underrepresented."

The entire UC system—meaning each of the nine campuses—is expected to mirror the high school graduating class of the state of California. But UC Berkeley's goals have been considerably more ambitious than those set for the campus by the UC five-year plan. Thus Berkeley sought to enroll two hundred more black freshmen in the fall of 1987 than was set as a goal in the UC plan. Furthermore, Berkeley's affirmative-action efforts have been very aggressive, to the point that they have often taken minority students away not only from other colleges and universities but from other UC cam-

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puses. As one Berkeley professor candidly acknowledges, "It may sound silly, but we do that at every level. That's the whole philosophy. If I find there is a top black student going to UCLA, you bet we will be going after him." The results show that Berkeley has been enormously successful in achieving affirmative-action representation. According to the same admissions official, "we are close to reaching parity in almost every single subcategory—that is, we'll be at 100 percent among all ethnic lines, or are now at 100 percent." Other campuses, however—Santa Cruz, for example—"are not where they need to be and have a long way to go."

Berkeley's five-year plan set forth a number of policy directives for admissions and enrollment. These directives enjoin the University to take the following steps: to increase the availability of guaranteed housing for minorities; to ensure adequate financial aid to minorities; to develop a plan to use staff, students, and alumni to assist minority students from admissions to enrollment; to continue to provide priority processing of minority applications; to require popular majors in which few minority students enroll to develop student affirmative-action programs; to promote the expansion of "Admissions-in-the-field";[2] to expand the use of pre-admissions interviews, which are aimed at evaluating minority students in terms of non-traditional criteria; and to develop a plan to admit 12.5 percent of each entering class on the basis of non-traditional criteria. (In the late 1960s, the figure established for "non-traditional" admissions for the entire UC system was 2 percent, the largest number of whom were said to be athletes, children of legislators, etc. Then the figure rose to 4 percent and later 6 percent, where it stands today. In short, over a twenty-year period there has been a radical departure from straightforward admissions requirements that simply reflect high-school grades and SAT scores.)

Berkeley has also attempted to increase minority enrollments by inaugurating the Task Force on Recruitment, Enrollment and Retention, a kind of super-committee made up of representatives from all of the offices on campus that deal with minority admissions. In terms of specific programs, it has created a liaison with Berkeley alumni, encouraging them to "recruit for diversity"; it has borrowed professors and administrators to recruit promising minority students; it has encouraged Admissions-in-the-field; it has defined

[2] This is a program in which recruiters can promise minority applicants admission to Berkeley on the spot, provided that the applicants' grades and scores subsequently meet Berkeley's standards.

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"protected categories" of applicants, so as to prevent minority applicants to Berkeley from being redirected to other campuses.

Student Affirmative Action administers a wide variety of programs to reach out to black, Chicano, and American Indian junior-high and high school students in California. Two of the largest are Partnership and Upward Bound, which are overseen by the Office of Academic Preparation and Articulation (OAPA). Partnership is a state-mandated program operating on all UC campuses. Its goal is to identify promising minority students (typically, students who are academically able but not yet on a college track), advise them of the requirements for college entrance, encourage them to apply to college, and provide them with academic assistance. OAPA targets high schools in the Berkeley service area that have substantial minority populations for Partnership involvement.

Upward Bound is a so-called "full service" program for economically disadvantaged students in tenth through twelfth grades. It offers academic counseling, tutoring, a residential summer school, and sometimes stipends. Also state-mandated, Upward Bound is much more intensive than Partnership, serving about 250 students a year, whereas Partnership serves approximately 2500 a year.

But the principal recruiting force at Berkeley is the Office for Relations with Schools (ORS), which has its own staff and also draws recruiters from other units on campus. It gathers search lists from the College Board, National Merit, Talent Search, and some high school districts to get the names of promising minority high school seniors. ORS then sends recruiters out to meet these students and maintain a relationship with them throughout the application and admissions process.

ORS recruiters face some major problems, from identifying students who meet UC admissions criteria to persuading them to attend Berkeley (since many students and many of their parents think that Berkeley is too radical, or too big and impersonal). They must also deal with so-called culture-specific forms of resistance. For example, some Chicanos are reluctant to move away from their families. While they may be Berkeley-eligible, they are nevertheless likely to want to go to less prestigious schools that are closer to home (such as Central Valley campuses). Recruiters must also provide financial assistance as well as other forms of support for minority students once they are accepted at Berkeley, so that they will stay and (when they return to their communities) tell other students about Berkeley's interest in helping them.

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In 1984-85, $6.3 million was designated for undergraduate Student Affirmative Action in the UC system. Of these funds, Berkeley received $842,872 (of which $193,000 went exclusively to financial aid). However, it is difficult to determine how much Berkeley really spends on activities related to affirmative action. In the broad sense outlined here, affirmative action does not appear as a line item in Berkeley's budget, or in the budgets of individual offices. Furthermore, many of the efforts related to affirmative action (such as activities of the Task Force, administrative staff work in the Chancellor's Office, faculty time spent reviewing student applications, etc.) are not easily assigned a dollar value. According to individuals who work in the four offices on campus most involved in affirmative-action efforts, the following approximate amounts were spent in 1984-85 on affirmative action: ORS, $461,629; OAPA, $545,000; Admissions, $120,248; Learning Center, $720,000—for a total of $1,846,877. (Other staff members believe this figure is too conservative. By their estimate, Berkeley spends at least $2.3 million a year on activities related to affirmative action.)

## The goal of diversity

It is abundantly clear that UC Berkeley has not only supported the cause of equal educational opportunities for minorities, but has also developed a comprehensive, high-priority affirmative-action plan to increase minority-student admissions. However, its efforts have been controversial, and have received considerable criticism. Claims about the benefits of increased representation of blacks and other affirmative-action groups have been challenged by parents, students, and many others. They have raised questions like these: On what grounds should a university give preferential treatment to certain minority-group members who are less qualified academically than other applicants, in order to bring about some kind of group proportionality? Acknowledging the need to have more minority students, how does an admissions committee decide how many more of which minorities are needed to achieve the "right" student mix? Inasmuch as the differences in academic performance of various ethnic groups are frequently large, what is an institution prepared to give up in academic excellence so that more members of these groups will be admitted?

Consider the question of diversity, which is central to an institution's admissions process. It is not unusual to be told by officials at different universities that "special sensitivity" is shown to certain ethnic minority groups, and that membership in such a minority

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group is an "important factor" in allowing a candidate to be chosen over others who have better academic credentials. But these same officials are reluctant to discuss when "special sensitivity" becomes outright preference, or how far they have to "stretch" to get the representation of minorities they want. As Harvard economist Robert Klitgaard observes in his authoritative book, *Choosing Elites*, admissions officers are "conspicuously vague about their policies of preferential admissions." They prefer to point to the "diversity" they are creating.

Yet "diversity" is open to different meanings and interpretations. Is ethnic diversity desirable because it benefits society, because it is fair and therefore good for society, because it has been mandated, or because it is popular? How is the goal of ethnic diversity to be balanced against other factors? And can "diversity" also mask some of the criteria that admissions officers use in making their decisions? Asian-American leaders have charged that Berkeley has systematically deemphasized objective admissions criteria in the name of achieving diversity, knowing that the change in policy would harm Asian-American applicants with high academic qualifications.

Furthermore, is the principal justification for race-specific affirmative-action programs the alleged fact that racial diversity is indispensable as an *educational* goal? Many excellent colleges and universities—one thinks of schools like Notre Dame and Yeshiva University, women's colleges like Wellesley and Smith, regional schools like the University of California and City College of New York, not to mention places like Cambridge and Oxford in England—have achieved high educational standards in the absence of "universal diversity" in their student bodies. The need for "diversity," as Alan M. Dershowitz of the Harvard Law School and Laura Hanft (then a Harvard law student) point out, was resurrected in the 1960s to achieve the "commendable purpose" of increasing the number of minority students on campus. But as they note, the legality and public acceptability of race-specific programs have been in doubt since their inception. Thus, in order to avoid a direct legal and political confrontation, "the Harvard College Admissions Office employed its discretionary authority to adopt multiple admissions criteria that also allow inclusion of academically disadvantaged blacks, whose access to Harvard is now given high priority." While the Admissions Committee acknowledged its new commitment to minority students, Dershowitz and Hanft say it was "circumspect" about the methods it used to target them or the quantitative factors at work. It invoked a "policy of broad personal, academic and

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socioeconomic diversity in the college rather than acknowledging its adherence to any specific quota, floor or target; or admitting that it was, in fact, significantly lowering its traditional standards for many minority students."[3]

## Admissions procedures

UC Berkeley's position on affirmative action in the admissions process is much the same as that of most colleges and universities —it claims that it does not discriminate illegally on the basis of race or ethnic identification, that it opposes fixed quotas, and that it actively recruits and provides support for "underminorities" in its efforts to achieve a diverse student population. Thus Berkeley is "pleased that admissions and enrollment projections for the fall of 1987 freshman class were on target." (The campus received 21,669 applications and offered 8,152 admissions to this group.) The class is "wonderfully diverse; . . . we are excited that the class closely reflects the actual ethnic distribution of California high school graduates: 2 percent American Indian, 25 percent Asian, 12 percent black, 17 percent Hispanic, 40 percent white, and 4 percent who declined to state." These are "especially significant percentages" for the campus affirmative-action recruitment efforts "because we saw increases in enrollment in all student affirmative action categories."[4]

But these percentages, while they tell an important story, do not tell the whole story. Only by examining admissions data, SAT test scores, and other data is it possible to determine what the numbers mean in terms of the current conflict between perceived equity and excellence, between seeking proportional representation of all racial and ethnic groups and searching for and rewarding the highest individual achievement, between maintaining high academic standards and granting admissions "allowances" or preferences for certain minority students. In this regard it should be pointed out that 40 percent of 1987's entering class at Berkeley (in 1985 it was 50 percent) were selected on academic grounds alone—that is, on the basis of the Academic Index, a formula that includes SAT and achievement-

[3] As Harvard's example suggests, "diversity" has developed a life of its own, inseparable from what university officials everywhere maintain is its essential importance to the education of students. In the words of Dershowitz and Hanft, "Matters of political and social choice are packaged in the less vulnerable (and more constitutionally defensible) guise of educational policy." It becomes difficult, therefore, "to hold the University accountable for its admissions programs or for any particular admissions decisions."

[4] Note that for affirmative-action purposes in the University of California's admissions process (both at Berkeley and elsewhere), targeted minorities are American Indians, blacks, Hispanics, and Filipinos. Other Asian-Americans are not included in this category.

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test scores and high school grades that are weighted for honors courses. (Provisions are also made for applicants who truly excel in mathematics or English, but may otherwise have a lackluster record.) The other 60 percent were made up of freshmen in "protected" categories, including the beneficiaries of affirmative action (such as the 12.5 percent of entering students mentioned above, who were admitted on the basis of the non-traditional criteria outlined in UC Berkeley's five-year plan), and applicants who were neither highly competitive nor "protected," but were admitted on the basis of minimum eligibility and other non-quantitative criteria, including extracurricular activities during high school, California residence, economic hardship, and special talents (such as playing football or the piano). The philosophy behind this two-stage selection process is that strictly meritocratic criteria dominate in choosing the first 40 percent on the basis of academic ability, accomplishment, and promise, while the University's mandate to serve the people of California and to assure the representation of California's minority groups in the student body dominates the second.

The pressures for both equal representation and equal performance present an inescapable dilemma for admissions officials, who must respond to demands that there be significant representation for each group, while knowing that the different groups dependably produce different average scores. However, it is not UC Berkeley's commitment to redress ethnic imbalances or to look at things other than SAT scores and grade-point averages that has caused tension and in many cases bitterness. The resentment comes from the feeling that Berkeley—which has always taken pride in its academic excellence as the flagship of the UC campuses—is reaching too far down to get students who are only marginally qualified; in many cases these students are unlikely to meet the academic standards required of other undergraduates. As one student asked, "Why should those who don't have the grades to make it through Berkeley be given special preference over those who worked hard to put together the academic record they were told all through high school Berkeley was looking for?"

Perhaps the most dramatic difference between the evaluation of minority and non-minority students is that *all* underrepresented minority applicants to Berkeley who are "system-eligible"—that is, who complete the required sequence of academic coursework in high school with a grade-point average (GPA) of 3.3 or higher, qualify for regular admission with a GPA between 2.78 and 3.29 and sufficiently high test scores, or score a total of at least 1100 on

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the Scholastic Aptitute Test—are "retained" or (in language that applied before the policy of multiple filing was instituted) "non-redirected" to another campus. The effect of this policy has been that virtually all American Indians, Hispanics, and blacks who apply to Berkeley, and who meet minimum UC requirements, are admitted. In contrast, white or Asian students are rarely accepted by Berkeley without a GPA of at least 3.7 or 3.8. In this regard, a draft memorandum (dated October 15, 1986) on the "Ratio of Admits to Applicants by Ethnicity by Academic Index for the College of Letters and Science (Fall 1986 New Freshmen)" reveals some sharp differences among various groups. For example, at no level of the academic index—that is, even with a perfect high-school GPA and the highest scores on the university entrance exams—did Asian or white applicants achieve a 100 percent admission rate. However, black applicants at the level of 5800 (out of a maximum Academic Index Score of 8000) were admitted, as were American Indians at 5100. A white or Asian applicant needed an Index Score of 7000 to have a 50 percent chance of admission, while a black applicant needed only 4800.[5]

The origin of the "redirection" policy, which was discontinued three years ago, is not clear. By all accounts, however, its rationale did not differ from that of the current policy: it represented an extension of the philosophy that specifically recruited students—in particular, underrepresented minorities targeted by UC Berkeley—should be protected from redirection to another campus.

Not surprisingly, the redirection policy was controversial. In 1984, some seven hundred students (most of whom were white, though some were Asian-American) were redirected so as to make room for minority applicants. The parents of the rejected applicants were quick to charge that their sons and daughters were denied admission to make room for less qualified minority applicants. Three or four of the parents (who were white) appealed the admission decision, threatening to bring *Bakke*-type suits against the University. These applicants were admitted to Berkeley to avoid such suits. However, it became clear that this could not resolve the issue, since the number of redirected students was growing rapidly. Furthermore, white parents were not alone in their unhappiness over

[5] According to an assistant to the Director of Admissions, underrepresented minority applicants are additionally favored in the following ways: they can apply after the November application period deadline and still be considered for admission; they are given special attention in oversubscribed majors, despite what may be comparatively modest qualifications; they may be offered admission on the basis of second-choice majors.

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the policy. Asian-Americans have become increasingly upset about declining enrollments at Berkeley, especially since it has occurred as the number of UC-eligible Asian-American applicants has increased. Apparently they feel that they are being given short shrift in favor of less qualified applicants from officially targeted minority groups.

Under the new system of multiple filing, as one Berkeley faculty member who has worked closely with admissions officials points out, the terminology has changed, but the policy of non-redirection of minority applicants has essentially been perpetuated: "Nobody is turned down at Berkeley who is system-eligible if they are an underrepresented minority," he observes. "They got first crack at Berkeley under the old system and it's still true under multiple filing. The big difference is that the numbers of non-minority students not being accepted are now much larger. Those students are not being redirected by Berkeley. They are just being turned down. And it's becoming a much more politically explosive issue."

## The minority recruitment pool

Underrepresented minorities receive special preference in admissions at most colleges and universities because of the size and characteristics of the top-flight national minority pool. The number of minority college-bound seniors minimally eligible for admission to UC Berkeley (or to an Ivy League school) is dishearteningly low. All the data show that the high school grade-point averages and SAT scores of Asians and whites are much higher than those of American Indians, blacks, and Hispanics. Furthermore, these three affirmative-action groups are less likely to apply to college in the first place, and less likely to have been in a college-preparatory or "academic" track in high school.

Other national data are equally sobering. In 1983, for example, fewer than 4,200 black college-bound seniors had grade-point averages of 3.75 or better. SAT scores—which, for all of their shortcomings, help to control for variations in high school quality and students' course selections—show that only sixty-six black students had verbal SAT scores over 699, and 205 had math scores over 699, out of a total of 71,137 black secondary-school seniors who registered for the Admissions Testing Program. (See Table I.) Fewer than a thousand black students had verbal SAT scores of 600 or better, and fewer than 1,700 had comparable math SAT scores.

This poses a serious problem for first-rank institutions that are trying to recruit minorities. The number of well-qualified blacks

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**Table I. Numbers and Percentages of Secondary-School Seniors with High GPA and SAT Scores by Ethnic Group: 1983[a]**

| Characteristic | *Ethnic Group* | | | | | |
|---|---|---|---|---|---|---|
| | American Indian | Black | Mexican-American | Asian | White | Total |
| Students with High School Grade-Point Average above 3.74 | 9.9% (456 out of 4,606) | 5.5% (4,146 out of 75,374) | 12.1% (1,968 out of 16,265) | 21.8% (7,858 out of 36,048) | 16.5% (115,722 out of 701,345) | 15.3% (135,295 out of (884,278) |
| Students with Verbal Scholastic Aptitude Test Score above 699 | .3% (17 out of 4,319) | .09% (66 out of 71,490) | .2% (32 out of 15,315) | 1.4% (496 out of 35,188) | 1.05% (7,263 out of 685,219) | .9% (9,028 out of 962,877) |
| Students with Math Scholastic Aptitude Test Score above 699 | 1.4% (61 out of 4,318) | .3% (205 out of 71,488) | .8% (128 out of 15,314) | 8.6% (3,015 out of 35,207) | 3.6% (24,750 out of 684,957) | 3% (31,704 out of 962,542) |

[a] *Source*: Leonard Ramist and Solomon Arbeiter, *Profiles, College-Bound Seniors* (New York: College Entrance Examination Board, 1983).

and Hispanics is exhausted quickly, and the not-so-elite schools are soon left drawing from a pool that is substantially less qualified. The handful of excellent minority students simply cannot meet the numerical demand for them. The problem is not only that a few schools monopolize the very best black applicants, but that even these schools have affirmative-action goals they cannot meet with the applicants at hand. As policy analyst Charles Murray (among others) has pointed out, the best schools reach down to the next students in line—"students who would not have gotten into these schools if they were not black, who otherwise would have been showing up in the classrooms of the nation's less glamorous colleges and universities."

At the same time, non-minority students who do have the scores and grades to obtain admission to Berkeley or Stanford are being turned away, and they are showing up in greater numbers at less prestigious schools. The result is that the gap between black (and other affirmative-action) students and white and Asian students is significant, not just at the elite institutions but at most schools.

According to a 1985 Report of the California Postsecondary Education Commission, only 838, or 3.6 percent, of California's 23,238 black public-high-school graduates in 1983 were eligible for regular admission to the University of California, compared with 13.2 percent of all graduating seniors. Just 2,258, or 4.9 percent, of the 43,823 Hispanic graduates completed all the requirements needed

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to be eligible for the University, as did 25,338, or 15.5 percent, of the 163,470 white graduates, and 4,171, or 26 percent, of the 16,043 Asian graduates. As a result, more than half of the 882 black first-time freshmen who enrolled at the University in Fall 1983, and over 45 percent of the University's Hispanic first-time freshmen, were special-admissions students. In contrast, few of the Asian first-time freshmen, and virtually none of the white first-time freshmen, enrolled on a special-admissions basis.

A statistical profile of freshmen admitted for Fall 1987 to the Colleges of Letters and Science, Engineering, Environmental Design, Chemistry, and Natural Resources at UC Berkeley (shown in Table II) attests not only to the high importance placed on increasing the number of underrepresented minorities, but also to the continuing dilemma that confronts both society and the University—namely, that the vast majority of minority students are not admitted on the basis of strong academic qualifications.

It is worth noting that the largest number (2,018) of students who applied to these five Colleges in Fall 1987 on the basis of the Academic Index—that is, students in the upper 40 percent—were white; 1,882 were admitted, of whom 585 enrolled in the fall. The

**Table II. Student Admissions to and Enrollments in Berkeley's Freshman Class,[a] by Applicant Category and Ethnic Group: 1987[b]**

| Applicant Category | *Ethnic Group* | | | | | |
|---|---|---|---|---|---|---|
| | Black | Hispanic | Native American | Asian | White | Total |
| Academic Index Score (AIS) Alone | 16 (1) | 82 (27) | 6 (4) | 845 (354) | 1,882 (585) | 2,831 (971) |
| Complemental Categories: Affirmative Action[c] | 702 (311) | 1,083 (480) | 115 (56) | 0 (0) | 0 (0) | 1,800 (847) |
| Special Action[d] | 182 (124) | 120 (80) | 17 (12) | 11 (10) | 81 (59) | 411 (285) |

[a] Enrollment figures are in parentheses.

[b] *Source*: Data from a University of California, Berkeley, Office of Student Research internal document, "Freshmen Admissions at Berkeley," February 1988.

[c] "Complemental Categories" refers to a number of qualified applicants with special qualities (not admitted on the basis of their Academic Index Score) who are offered admission. Berkeley conducts a separate review for each of seven categories, including disabled applicants, students from rural high schools, and recruited athletes. The largest number of students are affirmative-action applicants from underrepresented minority groups.

[d] These are applicants who do not satisfy the University's minimum eligibility requirements. Most of those admitted in this category are athletes or members of underrepresented minority groups.

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number of Asian applicants was 885; 845 were admitted, and 354 enrolled. There were eighty-two Hispanic applicants, all of whom were admitted. However, only twenty-seven enrolled. There were sixteen black applicants, all of whom were admitted. Only one enrolled. These figures also underscore another significant point. Less than 3 percent of the entering freshmen who were admitted on the basis of academic qualifications alone were Hispanic, black, or American Indian. In contrast, somewhere in the neighborhood of 90 percent of those students who did not meet Academic Index standards were members of these minority groups.[6]

It seems clear that efforts to recruit underrepresented minorities have their limits. According to a 1982 report—*Underrepresented Minorities: A Recruitment Analysis* (University of California, Berkeley, Office of Student Research)—the percentage of black students at Berkeley can be somewhat increased by more vigorous recruitment of eligible black high-school seniors. However, the percentage of Chicanos can probably not be increased much: "If every single UC-eligible Chicano high school graduate in California came to Berkeley, our percentage of Chicano students would still be slightly less than 10 percent. The only way to achieve a representative number of Chicano students on the campus is to increase the size of the applicant pool. This can only be done through intervention, but the magnitude of the numbers are such that Berkeley and even University of California intervention by itself will not suffice."

## Student performance

It is widely believed in many circles that the ability to succeed in college is equally distributed among all groups. But the ability to score 1181 on the SAT (the mean total score for all new freshmen entering UC Berkeley in 1986) is not. The mean score for new affirmative-action freshmen was 952 for blacks, 1014 for Chicanos, and 1082 for American Indians. The mean score for Asians was 1254; it was 1232 for whites. The proportion of new freshmen who have an SAT total score of 1000 or less has dropped from 24 percent in 1978 to 19 percent in 1986. But a much larger proportion of them are now from affirmative-action ethnic groups. Of all the new fresh-

[6] More specifically, while 2,831 students (mostly Asian and white, but including sixteen blacks and eighty-two Hispanics) were admitted solely on their Academic Index scores, as many as 2,211 (only 620 fewer) were admitted as Affirmative Action or Special Action students. Of those who registered, 971 were in the top 40 percent of students (those admitted through the Academic Index), whereas 1,132 were from either the Affirmative Action or the Special Action category.

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men with cumulative SAT scores of 1000 or less in Fall 1978, 24 percent were either American Indian, black, Chicano, Latino, or Filipino. By Fall 1986 that proportion had increased to 63 percent. Within the group of new freshmen with SAT scores totalling 1000 or less, the proportion of blacks rose from 10 to 26 percent, and that of Chicanos from 5 to 20 percent.

In the first year at Berkeley there are substantial differences in grade-point averages between regularly admitted students and those admitted through special admissions. Thus at the end of the 1985-86 academic year, 90 percent of all regularly admitted students had a GPA of 2.0 or better. The figure was 93 percent for Asian-Americans, 93 percent for whites, 76 percent for Chicanos, and 72 percent for blacks. However, only 62 percent of the specially admitted students earned a 2.0, including 62 percent of the Chicanos and 54 percent of the blacks.

Underrepresented minorities are much less likely to graduate from Berkeley than are Asian-Americans and whites. Although blacks are entering Berkeley in record numbers as freshmen—black student enrollment totaled 660 in 1978 and increased to 1,182 in the fall of 1982—not enough of them are leaving with diplomas. According to a recent campus study reported in the *San Francisco Examiner*, university figures show that while 66 percent of the white students and 61 percent of the Asian-American students will graduate within five years, only 41 percent of the Hispanic students and only 27 percent of the black students will graduate. Based on university statistics, fewer blacks graduated last year than twelve years ago! If the trend continues, the number of blacks who fail to graduate in the next three years will exceed the number who earned degrees in the last ten years.

The discouraging truth is that throughout the country fewer and fewer black college students are graduating. From 1979 to 1985, the number of whites receiving bachelor's degrees remained steady, but the number of blacks getting college diplomas declined by roughly 6 percent. Black colleges have a much lower dropout rate—about two out of three of their students graduate. Although they enroll only 16 percent of all black students, they award 40 percent of the degrees earned by blacks. At San Jose State, one of the nineteen campuses in the State University system (which has lower admissions requirements than the University of California), only 48 percent of the blacks who enrolled in Spring 1980 were still attending in Fall 1982. In comparison, continued enrollment in 1982 was 69 percent for Asians, 62 percent for whites, and 50 percent for Hispanics.

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One reason fewer blacks are coming out of colleges with degrees, as *U.S. News & World Report* observed in June 1987, is that fewer are going in. "Even though most campuses have tried to increase their minority enrollment, the number of blacks in four-year institutions has been on the decline. At last count, only 613,000 were in college in 1984, down 3.3 percent from 1980. During that time, the number of white students stayed about the same." A number of factors are regularly cited: a shift in financial aid from government grants to loans; the sense of isolation among blacks (exacerbated by charges of a "new racism" on predominantly white campuses); the new emphasis on tougher academic standards and excellence; a backlash from white students and professors against preferential treatment for affirmative-action groups; and the alarming proportion of blacks born into poverty-stricken, fatherless households.

## Prospects for the future

In 1974, the California state legislature called on all state universities, including the nine UC campuses, to move as quickly as possible to make the racial composition of their student bodies match the racial composition of each year's high-school graduating class. Berkeley set out to achieve this goal with affirmative-action programs that enabled it to accept blacks, Hispanics, and other minority students whose grades and test scores did not meet ordinary eligibility standards. But this development has not been without its costs, such as increasing resentment and hostility among ethnic groups, fueled by the special preferences given to some.

At Berkeley, the number of members of affirmative-action minorities has jumped from 285 in the 1975 freshman class to 728 in the class that entered in September 1986. The number is even larger at UCLA, where more than 25 percent of the freshmen entering in 1986 were members of these minority groups. (If, as suggested above, UC Berkeley spends $2.3 million a year on activities related to affirmative action, and if the number of freshmen recruited under affirmative-action programs is 728, Berkeley may be spending up to three thousand dollars for each affirmative-action student it gets, and perhaps three or four times that amount for each *graduate* recruited by the program.) This is clearly a benefit for those who are included in affirmative-action admissions targets. But in order to meet the targets, especially in light of a new policy of smaller freshman classes, Asian and white enrollments must drop as the number of blacks and Hispanics goes up.

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Not surprisingly, bitter feelings have been stirred. Many whites who feel threatened by what they call today's "damned curve-raisers" want a limit (or quota) placed on Asian-American applicants. Asian-American critics, however, accuse UC of "pitting Asians against blacks and Hispanics while holding up a floor for white applicants." They claim that university administrators worry about whites becoming "underrepresented" and about how to "curb the decline of white students." UC President David P. Gardner seemed to confirm these fears when, in an interview with the *San Diego Union* in 1986, he expressed concern that "the overrepresentation" of Asian-Americans made it difficult to increase black and Hispanic enrollment and might cause unrest among other racial groups, including whites. (He later said his remarks had been misinterpreted.) UC Berkeley Assistant Vice Chancellor Bud Travers warned that "if we keep getting extremely well-prepared Asians, and we are, we may get to the point where whites will become an affirmative-action group."

Many officials of the University now believe a major review of affirmative-action policy is needed, including the legislative mandate that enrollments at all state universities should reflect the proportional representation of ethnic groups among the state's high school graduates. President Gardner has warned that proportional representation will "inevitably lead to ethnic quotas." And a consultant to the California Assembly Education Committee says that the legislature "never intended to restrict the entrance of a particular group." (But this kind of disclaimer is hardly convincing. It does not exculpate politicians who first insist that the number of less qualified students should be increased, and then claim they never meant to limit the admission of any group. If the enrollment is fixed, the first must imply the second.) Whatever its intentions, however, the legislature's resolution stands as an authoritative political guideline that will continue to spur the program of university admissions—unless changes are made.

One possible change would be to define exactly what is meant by discrimination as it applies to the admissions process. If it takes higher grades and test scores for members of any group to get into Berkeley, would University officials acknowledge that that group has been discriminated against? If, on the other hand, it takes lower numbers for the members of any group to be admitted, would they deny that that group has been favored or benefited by discrimination? (These are questions that go far beyond one's support of or opposition to affirmative action.) In the *Bakke* case, Justice Powell said that race may not be considered for the purpose of increasing the

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number of minorities in colleges and universities, including our professional schools, but that race could be considered by admissions officials as part of its discretionary authority to foster greater educational diversity on campus. But the Court's decision has frequently been accused of creating more confusion than clarity. The University might wish to state candidly how much weight is given to race alone, or, to put it more specifically, whether race is considered on a basis different from geographical origin or other elements of diversity.

Donald H. Werner, headmaster of the Westminster School, a private college-preparatory school, reports that UC Berkeley made decisions on two of its students this past year, both Californians. Student A was ranked in the top third of his class, student B in the bottom third. Student A had College Board scores totaling 1290; student B's scores totaled 890. Student A had a record of good citizenship; student B was expelled last winter for breaking a series of major school rules. Student A was white; student B was black. Berkeley refused student A and accepted B. Werner wonders what messages about effort, ethical behavior, and the consequences of one's actions were conveyed to these students: "Have we moved from a position of equal opportunity to—in this case at least—affirmative-action cubed?"

There is a strong incentive to insist that race be used only to achieve educational diversity. That is the only basis on which the Supreme Court accepted the use of race as a criterion for admission in *Bakke*. And "quotas" were banned. But it appears that admissions authorities, in order to pass legal muster and to operate their programs in what they might call a realistic fashion, have a less rigid number in mind that they call a "goal." One is hard pressed to see how an admissions office can exercise any degree of preference in a race-conscious admissions program without some idea of how many members of minority groups it hopes for in the final mix of the student body. Hasn't the time come for the University to make public the extent of the special preferences given to certain groups but not to others—in short, to explain precisely how the system of assigning burdens and benefits works? As diversity has taken on a new luster, have race and ethnicity been legitimated as the proper and desirable grounds on which to accord preferential treatment to those less academically qualified?

The University could take additional steps. It could announce that disadvantaged students (specifically defined) of all races will be eligible for sympathetic consideration. Why should diversity automatically be equated with racial minorities? Why shouldn't admis-

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sions officials target for recruitment inner-city students with poorer socioeconomic backgrounds, regardless of their race? Would white inner-city or rural students diversify the Berkeley campus any less than those minority students who grew up in the suburbs?

The University should make it clear that no student will be rejected because of his or her race in favor of another who is less qualified, and that no applications will be held to a different standard because of race. As one faculty member put it, "It's time to consider a change in policy that may result in a smaller number of students from certain minority groups, who, if admissions requirements aren't lowered, will have a much better chance of graduating. The number who don't graduate now is simply unacceptable."

Is a university any less committed to equal access and opportunity if it believes, in the words of American University president Richard Berendzen, that it is more painful to have a student become disillusioned, drop out, and then feel he has failed, than not to admit him in the first place? The real issue is whether the University of California will continue to set affirmative-action goals based on racial proportions among high-school graduates—Jesse Jackson has gone so far as to claim that every college or university is moving in the "wrong direction" unless it fulfills its "moral responsibility to reflect the composition of society"—or whether it will concentrate instead on the merits and potential of individuals, regardless of their race or ethnic affiliation.

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# "Affirmative-Action Stalemate": A second perspective

HERBERT HAMMERMAN

I HAVE BEEN INVOLVED in the field of equal opportunity for well over twenty years. In 1986, The Potomac Institute published my study of affirmative action in the 1970s, entitled *A Decade of New Opportunity*. I also served some fifteen years with the Equal Employment Opportunity Commission (EEOC), before my retirement in 1981. I give this brief resumé as a preface to my statement that, although Nathan Glazer and I approach the issues of affirmative action from opposite viewpoints, I find myself in full accord with most of what he says in his article, "Affirmative-Action Stalemate" (*The Public Interest*, Winter 1988). On two points, I believe I can help shed some additional light: one is why certain groups are beneficiaries of affirmative action while others are not; the other is why big business defends affirmative action from its opponents, particularly those in the Reagan administration.

Practical politics as well as matters of principle explain much of the history of equal opportunity and affirmative action; chance too has played a role. The role of politics cannot be illustrated better than by an account of the changing composition of the five-member Equal Employment Opportunity Commission. The law specifies the number of members to be appointed by the President but not their race, ethnicity, or sex. The first Commission, selected in 1965, included three white males (among them both the chairman, Franklin D. Roosevelt, Jr., and the vice-chairman); one black male; and one black female. But beginning with the third chairman in 1967, the chairmanship came to be designated for blacks in all administrations, Republican as well as Democratic. Soon after, due to their numbers and political clout, Hispanics were assigned at least one regular place on the Commission. In time, the number of white males dwindled to one. And that is how it remained until the Reagan administration: white, black and Hispanic males; and one white (or one white and one nonwhite) female. But the present Commission is different, consisting of one black male, one white female, one Hispanic male, one Asian (Indian) male, and one handicapped male. This representational smorgasbord, created by an administration which insists that employment decisions be based on individual qualifications, easily matches any list of interest groups appealed to by the 1984 Mondale campaign. And for the first time in any admin-



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istration, we fail to find a single place left on the Commission for an ordinary white male—that is, someone not belonging to a "protected class." Apparently, there are too few positions to give adequate representation to all groups.

IN 1965 I became the first chief of the reports unit at the EEOC, and for a number of years remained so. There I helped to develop various report forms, including the EEO-1, a form on which employers were asked to enumerate their white and minority employees by sex, with a further breakdown by nine broad job categories. The minority groups covered by affirmative action are those listed on the EEO-1 form, and these were inherited from a previous form, called Standard Form 40. This form, which was created before the Civil Rights Act of 1964 by the federal organization charged with monitoring equal opportunity by government contractors, had been sent out for only two years; its findings had been used only for statistical analyses. There was also a form EEO-10, a stripped-down version of SF 40 developed by Plans for Progress, a consortium of representatives from big business supporting equal opportunity that made use of government offices, money, and staff. It seemed at the time that the main function of EEO-10 was to produce annual aggregate figures showing year-to-year progress in minority employment. The minority numbers were always low, but the percentage increases on low bases seemed impressive.

Because of the wording of Title VII, the EEOC was compelled to cooperate with the new Office of Federal Contract Compliance Programs (OFCCP). And because firms reporting on EEO-10 had not had to file SF 40, Plans for Progress was also involved. The EEO-1 was a joint product of the three organizations, and I was named secretary of a Joint Reporting Committee. EEO-1 then adopted the four minority groups that had been listed on the previous two forms. The cooperation between the organizations was salutary, but the resulting instrument was the product of sheer historical accident.

I suggest to Mr. Glazer that his idea of eliminating Hispanics and Asians from affirmative-action categories would not be acceptable now or in the foreseeable future. In 1967, I proposed removing Asians and American Indians from two new report forms covering apprenticeship and referral unions, on the grounds that both groups were very small, that the statistics for Asians did not show any discrimination, and that American Indians living on reservations were excluded from Title VII (while many of those off reservations were not readily identifiable). No one disagreed, not even the chairman (who explained, however, that he was unwilling to take the political heat that the removal would generate).

I HAVE two points of disagreement with Mr. Glazer on the coverage and function of affirmative action. I once felt as he did that chronic discrimination against blacks was the sole reason for the persistence of affirmative action in the face of powerful and some-

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times widespread opposition. An additional reason, I now believe, was the growth of the women's movement, and its opposition to women's being restricted to traditionally female jobs. The famous 1971 AT&T consent decree, for example, mainly concerned jobs that were segregated by sex.

The other point of difference, a slight one, is Glazer's statement that affirmative action has not "spread beyond the initial groups targeted for government concern." He is correct if he refers to the number of broad groupings—that is, the number of columns on EEO-1—which has remained the same. But there was an expansion of the existing groupings to include additional ethnic types. Eskimos and Aleuts, for instance, were incorporated into the American Indian category. Indians, Pakistanis, and Pacific Islanders were included with Asians by order of the Office of Management and Budget during the Nixon administration.

I tried to limit the number of minorities covered by the forms for the reason Mr. Glazer advocates (so as to concentrate on those groups that faced the deepest and most widespread discrimination), and also to avoid spreading limited resources too broadly. I also put language into the instructions to discourage "scientific definitions of anthropological origin"; it advised employers to use their powers of observation and general knowledge in identifying employees for our statistical purposes. This was a logical outgrowth of the government's policy of discouraging employers from requiring employees to identify themselves by racial or ethnic origin. My language is still in the instructions, along with the OMB's anthropological language. No one seems to have noticed the contradiction.

BUSINESS support of affirmative action has surprised its opponents and proponents alike. On the surface, it is puzzling that employers would choose to subject themselves to such detailed and expensive record keeping, to have nosy and officious compliance officers intrude in business details, and to accept tamely what many consider to be quotas for the employment of minorities and women. There are historical reasons to account for all these apparent oddities, but let us examine the last point first. There is a wide difference between quotas and goals, a difference which the National Association of Manufacturers (NAM) stressed in its testimony before a congressional subcommittee and in its accompanying press release in the summer of 1986. Under current regulations, goals are developed and adopted by the employers themselves, after they have examined their labor force and found underutilization of minorities or women. The NAM would never of its own volition accept quotas set by the government. And goals, unlike court-ordered quotas, do not have to be met—provided that the employer has made a good-faith effort. Of course, there have been abuses of power by government employees enforcing these regulations. But the OFCCP has strict procedures to be followed before depriving any employer of government contracts, and no employer should allow itself to be intimidated.

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There are at least two reasons for business support of affirmative-action goals. One has been the underlying threat of suits under Title VII, with the accompanying unfavorable publicity and the need to pay attorneys' costs and perhaps extensive damages as well. Under Title VII, the right to sue is not limited to the government or even the grievant, but is extended to any party acting on behalf of a class of affected persons. The second reason for corporate support of affirmative action is that large organizations often find it difficult to carry out a new policy, such as hiring and promoting minority-group members, without establishing clear guidelines—especially if that policy runs counter to ingrained social attitudes and habitual methods of hiring and promotion. A large company is no less bureaucratic than a government agency, and policies set from above can be resisted just as easily. Prior to the 1971 regulations spelling out affirmative-action procedures, we had two decades of equal-opportunity policy for government contractors, and the results were minimal. With civil-rights legislation, blacks were employed in larger numbers, but few received better jobs. The statistical conclusions that Mr. Glazer cites in the Smith and Welch study (*Closing the Gap: Forty Years of Economic Progress for Blacks*) can be misleading. Those forty years saw an enormous migration of blacks from agricultural and domestic work in the South to industrial work in the North. Also, as the South became industrialized, more and better-paying work was available to the blacks—both male and female—who remained there. By 1970, the typical black family already had more than one wage-earner. In that same period, the typical white family had but a single earner, which accounts for the narrowing of the statistical gap in family black-white earnings.

In the 1970s, it came to be more customary for white women too to work outside the home. With the women's movement and the continuing inflation of the dollar, white women went to work in unprecedented numbers, and in better jobs. That is reflected in educational as well as employment statistics. The number of one-earner families decreased considerably. It was no wonder there was no further narrowing of the black-white gap in family earnings. But something else was also revealed by the earnings data: a bimodal movement in black family earnings, with more families on the top and more on the bottom. The top percentages reflected a movement of blacks into better jobs. The percentages on the bottom, while somewhat more difficult to explain, clearly reflected the enormous growth in female-headed families. The latter is a problem that cannot be handled by equal-opportunity policy, which can help only those who are qualified for a job but have been the object of discrimination.

There is no question in my mind that affirmative action was successful in the 1970s. Statistical studies comparing contractors and noncontractors, including the Jonathan Leonard study cited by Mr. Glazer, a study published by the Department of Labor, and one developed for my own publication, all show this to be true. Was affirmative action necessary to achieve the noted results, then? Yes,

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definitely. I have a copy of a booklet printed in the late 1960s for members of Plans for Progress, the consortium mentioned above, advocating the adoption of utilization analyses and goals and timetables by its member firms. It was only after the frustrating failure of such voluntary action that the 1971 affirmative-action regulations were adopted by the Nixon Labor Department. The timing, along with other evidence, shows that the regulations reflected a deal that was struck between big business and government. From before adoption of the regulations until the present, the National Association of Manufacturers has worked to inform its members and to advise them on compliance. No wonder business has resisted efforts to weaken affirmative action. (Incidentally, this is not true of small business, for which the regulations are more onerous; this probably explains the different position taken by the Chambers of Commerce.)

There remains the question: Is it desirable that the labor force reflect demographic percentages? Is it even feasible, in view of differing interests, educational levels, seniority, and various other considerations? Probably not. Affirmative action is designed to attack pervasive forms of discrimination not remediable by fine tuning. And yet in spite of affirmative action's faults, I do not believe we are ready to dispense with it. Although we should not indefinitely continue using labor-force percentages in the way we do now, the time for the change has not yet arrived. And at least for now, the nation's large firms support the policy.

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